

# INDIAN ECONOMICS

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## *A Comprehensive and Critical Survey*

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VOLUME I

NINTH EDITION

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which stood at Rs. 160 per candy at the end of June 1939 (i.e. before the war), rose to the peak level of Rs. 337 only in January 1940, and then declined to Rs. 156 at the end of June 1940. These violent fluctuations were largely due to war-time speculation, and the loss of the Continental market. The price of cotton, after rallying at about Rs. 230 in July-August 1941, following increased consumption by mills in India, declined to Rs. 185 in March 1942 owing to the loss of the Japanese market as a result of the outbreak of war with Japan. The anxious situation thus created, especially in the case of short-staple cotton, which is aptly called 'orphan' cotton, engaged the attention of the Government of India, which in January 1942 announced the doubling of the import duty on raw cotton with a view to establishing a separate fund. The fund was to be used for financing suitable measures, including purchases by the Government, for the benefit of the grower of short-staple cotton, who was advised to change over to other more useful crops, preferably food grains. Owing to the continued policy of Government restricting the acreage under cotton in order to promote production of food-grains and improvement in off-take in the internal as well as foreign markets the Indian cotton-growers' prospects of gain appear to be reasonably bright.

The area under cotton has increased considerably in certain tracts at the cost of food crops. The average of the years 1895-1900 was 13.86 million acres, while 28.40 million acres was returned as being under cotton in 1925-6. In 1940-1 the estimated area under cotton was 23.28 million acres and 14.8 million acres in 1945-6. The principal cotton areas of India are Bombay 3.5 million acres, Bombay States 1.47, the Central Provinces and Berar 3.33, Hyderabad 3.19, the Punjab 2.64, Central India States 1.04, Madras 2.22 and Punjab States 0.65 million acres in 1939-40. So far as the area under cotton and total outturn go, India stands next to the United States of America. Indian cotton is for the most part short-staple, the lint being short and coarse in fibre as compared with that of American and Egyptian cotton. It was therefore unsuited until recent years to the manufacture of cloth of higher counts such as is turned out by the Lancashire mills. The yield of cotton per acre in India is, however, low, being between 75 and 100 lb. of lint cotton, as compared with 180 lb. in the United States and 300 to 400 lb. in Egypt. The Agricultural Department—which was indeed started originally on the initiative of Lancashire—has for some years directed its efforts towards the improvement of the quality and the increase of the yield per acre of the indigenous varieties. It has also tried to introduce exotics—especially long-staple cotton—and to produce hybrids. Conditions in many parts of India are not favourable to the cultivation of the exotic varieties, and greater attention has therefore to be paid to the improvement of the indigenous varieties. Egyptian and upland American cottons have been introduced in Sind, the latter with most prospect of success. The completion of the Sukkur Barrage irrigation project was expected to increase the area under such cottons, the yield being estimated at 549,000 bales per year. Another

notable achievement is the introduction of Cambodia cotton into Madras since 1904. In Bombay, the Punjab and the United Provinces also, American cotton has been introduced. The doubling of the duty on imported raw cotton in March 1939 was intended to give some protection to the Indian cultivator of long-staple cotton. There has been a great improvement during recent years in the production of medium-staple cotton and prospects of further improvement are bright, though one danger is that, owing to the low prices secured for this cotton, the growers may revert to the short-staple Indian cotton for which the demand is constant, though not capable of any great expansion. Recent tests conducted in Lancashire have proved that certain types of Indian cotton—like the best Punjab-American, Madras-Cambodia and a Surat variety—can be used for spinning yarns of higher count. More Indian cotton is now consumed by the Lancashire mills than before, owing to the efforts of the Lancashire Indian Cotton Committee since its establishment in 1932. The Bombay-Lancashire Textile Agreement (commonly known as the Mody-Lees Pact) of 1933 was intended to popularize and promote the use of Indian raw cotton in the United Kingdom.<sup>1</sup> The Indo-British Trade Agreement of 1939 linked up exports of raw cotton from India to England with imports of cotton piece-goods from Lancashire.<sup>2</sup>

The war of 1914–18 brought into the foreground the question of making the British Empire self-supporting in respect of its cotton supply. This, among other reasons, led the Government of India to appoint the Indian Cotton Committee, in 1917, to examine the possibilities of increasing the supply of long-staple cotton in India, to suggest improvements in the existing methods of ginning and marketing, and to make recommendations in regard to the prevention of adulteration, damping and mixing, etc. The report of the Committee, which was issued in 1919, was divided into two parts, agricultural and commercial. The Committee, desiring to secure an adequate price to the grower, especially of pure or superior varieties of cotton, made a number of helpful recommendations in favour of open markets on the Berar model to ensure full knowledge on the part of the purchaser in regard to the stuff he was buying, the extension of co-operative sale societies, licensing of cotton ginning and pressing factories and restrictions on transport of cotton to prevent the malpractices of adulteration, mixing and damping. The improvement of the cotton trade by the organization of a Central East India Cotton Trade Association in Bombay was also recommended. Lastly, the establishment of a permanent Central Cotton Committee to ensure closer touch between the Agricultural Department and the cotton trade was suggested. The Committee, consisting of 20 official and non-official members, it was suggested, should be an advisory body which should be consulted by the Government on any proposed legislation and on the working of the licensing system. The Committee would carry out authoritative valuations

<sup>1</sup> See vol. II, ch. vii, §6.

<sup>2</sup> See vol. II, chs. ii, §13, and vii, §9.



of new varieties of cotton and spinning tests. After some delay, action was taken on the proposals of the Committee. The East India Cotton Trade Associations was formed in 1922. The Central Cotton Committee held its first meeting in 1921 in Bombay. The Committee promoted a Cotton Transport Act (1923) to prevent the adulteration of cotton, which, having been applied in the first instance to Bombay, where it met with encouraging success, was extended to Madras. A Cotton Ginning and Pressing Factories Act—a corollary to the Transport Act—was enacted in 1925. The Indian Central Cotton Committee has established a technological laboratory in Bombay to carry out spinning tests, etc. In co-operation with the Central India States, the Committee has started experimental work on cotton through the agency of the Institute of Plant Industry at Indore. Special research schemes in various provinces are also being promoted by the Committee. Its activities are financed out of the proceeds of a small cess of two annas per bale on all cotton used in mills in 'British' India and exported from India. In Bombay, a Cotton Markets Act was passed (1927), and the necessary rules under the Act were issued by the Government of Bombay. The provisions of the Act, which were in force in three cotton centres in the province, were, in 1939, incorporated in the Bombay Agricultural Produce Markets Act. Similar Acts have been passed in the Central Provinces (the Central Provinces Cotton Market Act) and Madras (the Madras Commercial Crops Market Act). The only comment that we need make here relates to the necessity to devise measures for the use of improved varieties of cotton in the country itself with a view to lessening our dependence upon foreign cloth. We are also dependent on foreign cotton for the manufacture of cloth of superior quality in our mills.

(b) Jute is the next most important Indian fibre after cotton. India enjoys a monopoly as the world's sole producer of jute. Its cultivation is restricted to the Ganges-Brahmaputra delta in Bengal, the province of Assam with the adjoining Indian State of Cooch Bihar, Bihar, and Orissa. The soil here is enriched by alluvial deposits brought by river inundation and is thus suited to grow this exhausting crop without any expenditure on manure. In 1940-1 the total area under jute was estimated at 5.66 million acres. Although the acreage during the years 1931-7 was considerably curtailed, owing to the severe slump in prices and the depression in the jute manufacturing industry following the world economic crisis of 1929-33, a vigorous campaign has been in progress in order to improve the position. The Bengal Government announced in September 1934 a scheme of voluntary restriction of the 1935 crop, in order to assist the recovery of the price of raw jute, and carried on propaganda in favour of it for three successive seasons. Although this voluntary effort was considered by critics to be a failure, it may be said to have had a negative value. Owing to the fluctuations in the price of raw jute and the demand for it during the 1939-45 war, the Government of Bengal secured the enactment of the Bengal Jute Regulation Act (August 1940),

which was applied on a compulsory basis to the crop grown in 1941 in the interest of the growers. Bengal accounts for the bulk of the area under jute (3,607,000 acres in 1940), the other jute-growing provinces being Bihar (282,000), Orissa (28,000) and Assam (363,000). The Indian States of Cooch Bihar and Tripura had 46,000 and 18,000 acres under jute respectively. The introduction of jute cultivation in the Ganjar tract of the United Provinces has proved a success. The area under jute and the yield of fibre have largely increased during the past 60 years.

The export aspect of the crop is only second in importance to that of raw cotton.<sup>1</sup> In 1928-9, 898,000 tons of raw jute valued at Rs. 32.35 crores were exported. The corresponding figures for 1932-3 were only 563,000 tons valued at Rs. 9.73 crores. The decline was due to acute depression in the jute industry both in India and in the consuming countries. There was then some recovery in the quantity of raw jute exported, which increased to 821,000 tons valued at Rs. 14.77 crores in 1936-7. The business recession of 1937-8 again adversely affected exports, which declined to 747,000 tons valued at Rs. 14.72 crores in 1937-8, and to 690,000 tons valued at Rs. 13.40 crores in 1938-9. In 1939-40 exports of raw jute were smaller by 18 per cent in quantity (568,000 tons) as compared to the previous year, but their value registered an increase of 47 per cent (Rs. 19.73) crores. This is explained by the big spurt in the price of raw jute after the declaration of war in September 1939. Owing to hectic speculation the price of raw jute advanced from Rs. 9-4 (tops per maund) in June 1939 to Rs. 19-8 early in January 1940. There was a similar increase in the price of jute manufactures. The steep rise had an injurious effect on the demand from overseas customers. This, coupled with the slowing down of the overseas orders for sandbags and the closing down of the Continental markets, adversely affected the position of both raw jute and jute manufactures, as indicated by the steep recession of prices and the big drop of Rs. 12 crores in the value of raw jute exported from India in 1940-1.<sup>2</sup>

Germany (before 1939) and the United Kingdom were the principal customers for India's raw jute, other importing countries being Spain, France, Japan, China, the United States, Italy, and Belgium. The export of raw jute commenced as early as 1795, but the quantity was small to begin with. The demand on the part of the Dundee power-looms had come to be considerable by 1832. The hand-loom industry in Bengal had, however, still sufficient vitality up to 1850 to ensure an excess of exports of manufactured jute goods over those of the raw material. The cutting off of the United Kingdom from the supplies of Russian flax during the Crimean War led to the exploitation of jute as a commercial

<sup>1</sup> Exports of raw jute and jute manufactures together occupy the first place in India's export trade.

<sup>2</sup> See vol. II, ch. ii, §18, for further particulars of the effects of the second world war on the jute industry, Government control over prices of raw jute and jute manufactures and legislation to regulate the cultivation of jute in Bengal.

fibre of the first importance and resulted in increased exports of raw jute, which totalled nearly 900,000 tons in 1908-9, the two principal customers being the United Kingdom and Germany. During the war of 1914-18 exports declined considerably, but there was recovery afterwards until the depression of 1929-33. The progress of the jute manufacturing industry will be traced elsewhere (Vol. II, ch. ii). It may be pointed out here, however, that the jute industry had shown uninterrupted progress until it was caught up in the trade depression of 1929-33. In the years before the war of 1914-18 Indian manufactures of jute increased faster than the exports of raw jute, a tendency further stimulated by that war and post-war developments. The consumption of raw jute in India has been steadily increasing, being 141 per cent more than the exports in 1939-40. The search for a substitute for jute, which was intensified by the recent steep rise in the price of raw jute, has not met with any marked success. With a view to preventing any possible loss of markets, the Indian Central Jute Committee, which commenced its work at the end of 1936, started a technological laboratory under expert management for continuous research work on jute and jute products.

(v) *Indigo*.—Indigo has had a highly chequered history, which goes back almost to the beginning of the Christian era. 'Originally the industry in western India was in Portuguese hands, but about 1778 the East India Company revived it in Bengal and gave it direct encouragement for the next 20 years, and when about 1837 the industry migrated to Tirhut and the United Provinces, India recovered the foremost place among the indigo-producing countries of the world from which she had been temporarily ousted by the West Indies. India's position remained unassailed . . . until German laboratories found themselves in 1897 at last in a position to produce indigo (indigo had actually been synthesized nearly 30 years earlier) on a commercial scale. The fate which had already overtaken the *madder* and the *lac-dye* industries thereupon threatened the factories of Bihar.'<sup>1</sup> The Indian exports were seriously affected. Until 1907-8, indigo represented more than half the value of dyeing and tanning materials exported, but in 1913-14 this percentage had fallen to one-fifth. The area under cultivation fell from 1,688,901 acres in 1896-7 to 172,600 acres in 1913-14 and the exports from 169,523 cwt. to 10,939 cwt. The natural indigo industry received a temporary stimulus from the war of 1914-18 which closed the markets of the world to the synthetic substitutes and raised the price of indigo. There was a partial recovery made by the area under cultivation, which rose to 700,000 acres in 1916-17, and by the exports, which rose to 41,932 cwt. in 1915-16. However, there has again been a set-back since the close of the war of 1914-18. Exports of indigo have been insignificant in recent years, the value of exports being only Rs. 17,000 in 1939-40 as compared with Rs. 41,000 in 1938-9. Opinions differ regarding the prospects of the industry, which do not

<sup>1</sup> See Cotton, op. cit., p. 261.

seem to be bright. Salvation lies only in cheaper production both as regards cultivation and manufacture. In 1915 the Delhi Conference considered the question of assisting the industry from three points of view—agriculture, research and commercial. In 1918, an indigo cess was levied on exported indigo, the proceeds of the duty to be expended by the Government of India on scientific research work in connexion with the cultivation and manufacture of indigo.

The total area reported under indigo cultivation in 1940-1 was only 60,000 acres, the principal contributors being Madras, the United Provinces, Bihar, the Punjab and Bengal. Bihar is the most important from the point of view of foreign trade and it is here that the dye is systematically extracted and marked under European supervision. The bulk of the indigo produced in Bihar factories was, before 1939, exported from Calcutta, chiefly to Greece, the United Kingdom, Egypt, Yugoslavia, Japan and Aden.

(vi) *Opium*.—The area under opium has declined progressively as a result of the Government policy of stopping all exports to China under the agreement of 1907 with that country and eventually (by 1935) with all other countries, and of controlled internal consumption. In British India there has been a striking decline from 614,879 acres in 1906-7 to 7,138 acres in 1939-40. The cultivation of the poppy is carried on under a system of Government licences and is now practically confined to the United Provinces (5,834 acres), the Punjab contributing 1,304 acres. Only 644 chests or 825 cwt. of opium were exported in 1934-5 as compared with 2,823 chests or 3,524 cwt. in the preceding year and the average of 51,000 cwt. in the quinquennium 1909-10 to 1913-14, valued at Rs. 9.97 crores. There has been no export of opium on private account since 1935-6. India has thus made a big sacrifice of revenue derived from the export of opium, in order to carry out her obligations under international agreements.

(vii) *Tobacco*.—The tobacco crop is believed to have been introduced into India by the Portuguese early in the seventeenth century. Since the days of the East India Company, the Government directed their efforts towards improving the indigenous methods of curing and manufacturing and towards providing a better quality of leaf. There are two principal centres of the tobacco industry, eastern and northern Bengal and southern India. In 1939-40, the total area reported under tobacco was 1,310,000 acres, the leading contributors being Madras, Bengal, Bihar, Orissa, Bombay, the United Provinces, and the Punjab. The bulk of the tobacco grown in India is consumed locally, but there is an export trade of some value in unmanufactured tobacco, chiefly from Madras. In 1939-40, 57.6 million lb. of tobacco valued at Rs. 181 lakhs was exported. In 1942-3 the value of exports was Rs. 149 lakhs as against Rs. 220 lakhs in 1941-2. In 1943-4, exports of tobacco were considerably less than in the preceding year amounting to 16.9 million lb. valued at Rs. 76 lakhs, as against 38.2 million lb. in 1942-3. Of the total quantity shipped in 1943-4, un-

manufactured tobacco represented 94 per cent, exports of which decreased in quantity from 37.1 million lb. to 16.0 million lb. and in value from Rs. 138 lakhs to Rs. 58 lakhs. Exports to the United Kingdom declined heavily from 26.3 million lb. in 1942-3 to 4.5 million lb.<sup>1</sup> As regards manufactured tobacco, the value of imports has always exceeded that of exports, and the difference has recently been accentuated by the increased consumption of cigarettes. In 1929-30, India imported 5.3 million lb. of cigarettes valued at Rs. 213 lakhs, and 4.8 million lb. of tobacco valued at Rs. 57 lakhs. Imports of cigarettes steadily declined to 593,000 lb. in 1933-4. Since then, as a result of the revision of duties, they again registered an increase, being 1,371,000 lb. valued at Rs. 40 lakhs in 1939-40. Imports of unmanufactured tobacco fell from 6.4 million lb. in 1938-9 to 5.8 million lb. in 1939-40, the value, however, showing an increase from Rs. 58 lakhs to Rs. 64 lakhs. In 1943-4 there was a slight improvement in the imports of tobacco, all sorts of which amounted to 9.8 million lb. valued at Rs. 160 lakhs in 1943-4 as compared with 8.6 million lb. valued at Rs. 133 lakhs in the preceding year. Receipts of unmanufactured tobacco rose from 7.8 million lb.<sup>2</sup> The increased home demand has encouraged the opening of a number of factories for the manufacture of cigarettes in India. Indian leaf tobacco makes an excellent filler but is generally unsuitable for wrappers. The deficiency was met, up to 1941, by a considerable import of leaf from Sumatra and Java. The botanical section of the Agricultural Research Institute has directed its attention to the question of improving the quality of Indian tobaccos, especially in the direction of hybridization of new kinds, and of the production of a tobacco of the colour, flavour and texture of that commonly called Virginian. The heavier import duties levied on tobacco are also calculated to stimulate the cultivation and consumption of Indian tobacco.<sup>3</sup>

(viii) *Fodder crops*.—The area in British India under these crops has increased from 2.94 million acres in 1901-2 to 10.47 million acres in 1940-1, the principal areas being the Punjab (5.04 million acres), Bombay (2.37), and the United Provinces (1.63). In spite of this increase we may say that the area devoted to fodder crops is insignificant in view of the large number of cattle that must be maintained in a state of efficiency in an agricultural country like India. Coarse fodder-crops are relatively valueless for milk-production. Cultivated crops are reasonably satisfactory, but the crops of outstanding value are the leguminous crops such as berseem (Egyptian clover) and lucerne (alfalfa). These crops are of special importance to Indian agriculture because of their ability to enhance the fertility of the soil.<sup>4</sup> The Agricultural Department has of late years given

<sup>1</sup> *Review of the Trade of India* (1943-4), p. 101.

<sup>2</sup> *ibid.*, p. 81.

<sup>3</sup> See *Review of Agricultural Operations in India* (1928-9), pp. 67-70.

<sup>4</sup> See N. C. Wright, *Report on the Dairying Industry of India*.

much attention to the question both of growing and storing fodder. The successful introduction of the famous Egyptian clover, as a soil renovator, in Sind, Bihar, the Central Provinces and the North-West Frontier Province, and the cultivation of berseem at Pusa may be regarded as creditable achievements.

(ix) *Rubber*.—Rubber, for which the uses today are legion, is grown mainly in southern India (Madras, Coorg, and the States of Mysore, Travancore and Cochin). The total area under rubber in 1940-1 was 130,000 acres and the yield 35.53 million lb. as compared with only 1.8 million lb. in 1932, when the general slump in the rubber market was most acute. Most of the rubber grown is exported. 21.5 million lb. valued at Rs. 94 lakhs was exported in 1939-40 compared with 17.2 million lb. valued at Rs. 72 lakhs in the preceding year. The exports before 1910 were small, the industry being in its infancy. Even today India's share in the world's production is very small. Since June 1934 an international scheme for the regulation of production and exports of rubber has been in operation. It has helped to lift the market from the extremely depressed state which prevailed before its introduction. The value of the imports of rubber manufactures (tyres, tubes, etc.) in 1939-40 amounted to Rs. 148 lakhs. An event of outstanding importance was the establishment (1936), near Calcutta, of a large factory for the manufacture of tyres and other rubber goods. With the development of local production, which was stimulated by the second world war, it is possible that imports of rubber manufactures will tend to decline in future. A fairly large quantity of raw rubber is also imported into British India (Bengal), mainly from Burma.

§8. *Exports of agricultural products*.—In the foregoing survey of the principal crops of India, something has been said about their export. It is now necessary, however, to treat the whole subject of the exports of agricultural products separately. As a preliminary to the discussion of this question some statistics of exports of foodstuffs and raw materials may be given. The two tables (pp. 162-3) show the quantity and value of exports of (I) foodstuffs and (II) principal other crops in 1929-44.

Table III (p. 164) shows the percentage of exports of certain principal crops to the total production, while Table IV (p. 164), giving the percentage proportion to the total value of all exports of merchandise, shows the comparative importance of the principal foodstuffs and other agricultural products in the export trade in 1939-43 and 1943-4.<sup>1</sup>

<sup>1</sup> The total value of all exports from British India was Rs. 2,03,43,54,000; Rs. 2,37,56,21,000; Rs. 1,87,90,44,000; Rs. 1,99,87,98,000 in 1939-40, 1941-2, 1942-3 and 1943-4 respectively. See *Review of the Trade of India* for 1939-40 (p. 139) and for 1943-4 (p. 86).

TABLE I

	Quantity (1,000 tons)					Value (Rs. 1,000)				
	Pre-war average 1909-10 to 1913-14	War average 1914-15 to 1918-19	Post-war average 1919-20 to 1923-4	1929-30	1939-40	Pre-war average	War average	Post-war average	1929-30	1939-40
<i>Grain, pulse and flour</i>										
Rice (in the husk) ...	42	32	35	28	4	27.18	20.09	31.36	22.20	2.87
Rice (not in the husk) ...	2,398	1,685	1,462	2,298	262	25,66.55	18,88.25	24,33.66	31,28.42	3,19.05
Wheat ...	1,308	807	237	13	8	13,96.86	10,33.41	3,66.61	21.24	10.20
Wheat flour ...	55	57	56	51	50	86.99	1,13.20	1,50.26	1,07.18	68.19
Pulse ...	159	129	141	97	73	1,29.81	1,88.52	2,02.78	1,63.78	95.29
Barley ...	227	198	40	6	...	1,93.16	2,21.73	46.56	6.72	72
Jowar and bajra ...	41	41	11	15	7	37.60	44.15	17.39	25.13	7.45
Other sorts ...	181	192	27	2	4	1,42.96	2,32.45	34.03	4.49	3.60
Total foodstuffs ...	tons 4,411	3,141	2,009	2,510	408	45,81.11	37,41.80	32,82.65	34,79.16	5,07.37
Tea ...	lb. 266,497	322,691	321,169	376,634	356,695	13,06.78	17,54.57	20,92.42	26,00.64	26,07.78

TABLE I (continued)		Quantity (1,000 tons)				Value (Rs. 1,000)			
		1940-1	1941-2	1942-3	1943-4	1940-1	1941-2	1942-3	1943-4
<i>Grain, pulse and flour</i>									
Rice (in the husk)	...	2	28	11	...	1.55	31.40	14.03	...
Rice (not in the husk)	...	251	303	255	27	3,34.72	4,83.48	5,24.87	60.41
Wheat	...	45	186	8	31	49.71	2,41.62	12.10	69.27
Wheat flour	...	66	87	14	11	91.96	1,36.69	26.86	32.26
Pulse	...	88	113	38	16	1,06.94	1,37.95	73.94	52.13
Barley	...	...	1	...	...	41	1.21	30	1
Jowar and bajra	...	2	5	6	10	1.59	4.87	8.89	15.87
Other sorts	...	4	3	20	...	4.01	3.66	32.24	87
Total foodstuffs	...	tons 458	726	352	95	5,90.89	10,40.88	6,93.23	2,30.82
Tea	...	lb. 349,490	381,951	322,917	413,090	27,78.61	tons 458	31,63.97	37,85.82

1 Review of the Trade of India (1929-30 and 1939-40).

TABLE II<sup>1</sup>

	Quantity (1,000 tons)					Value (Rs. 1,000)				
	Pre-war av. 1909-10 to 1913-14	War av. 1914-15 to 1918-19	Post-war av. 1919-20 to 1923-4	1929-30	1939-40	Pre-war average	War average	Post-war average	1929-30	1939-40
<i>Fibres</i> : Cotton (raw)	430	391	521	727	526	33,27,83	33,63,19	64,73,89	65,07,70	30,10,80
Jute (raw)	764	464	554	807	568	22,20,24	12,80,28	19,52,77	27,17,38	19,73,18
TOTAL FIBRES	1,194	855	1,075	1,534	1,094	55,48,07	46,43,47	84,26,66	92,25,08	49,83,98
<i>Oil-seeds</i> : Essential	10	8	9	4	8	20,57	24,16	35,88	15,68	20,47
Non-essential: Linseed	379	270	251	248	219	7,98,90	4,94,94	7,57,72	5,72,37	3,17,61
Groundnut	212	119	195	714	549	3,52,57	1,91,17	5,61,97	16,38,86	7,19,01
Rapeseed	273	91	206	44	22	4,14,69	1,43,01	5,07,37	92,08	32,77
Sesamum	119	33	28	11	4	2,48,15	67,35	1,02,73	27,18	7,49
Castor	114	89	48	106	40	1,66,43	1,57,55	1,14,54	2,14,96	71,18
Copra	31	16	7	...	...	1,10,43	60,73	28,84	68	38
Cotton	240	69	155	58	...	1,79,98	50,25	1,88,05	54,87	3,35
Mustard	4	3	2	3	3	10,08	9,16	9,75	7,62	6,65
Mowra	29	3	8	...	...	42,53	3,04	12,79	63	...
Poppy	33	5	6	...	...	69,41	9,58	20,97	71	20
Other sorts	9	2	8	7	4	23,23	6,48	13,03	21,12	10,22
TOTAL	1,453	708	923	1,195	851	24,36,97	12,17,42	23,53,64	26,46,76	11,89,33

TABLE II (continued)

TABLE II (continued)					Quantity (1,000 tons)					Value Rs. (1,000 tons)				
	1940-1	1941-2	1942-3	1943-4	1940-1	1941-2	1942-3	1943-4	1940-1	1941-2	1942-3	1943-4		
Fibres : Cotton (raw)	387	257	54	50	23,56,25	15,94,02			3,64,20			6,36,35		
Jute (raw)	243	315	243	178	7,84,60	10,41,73			9,01,57			8,32,91		
TOTAL FIBRES	630	572	297	228	31,40,85	26,35,75			12,65,77			14,69,26		
Oil-seeds : Essential	14	18	13	5	38,45	54,06			41,27			25,83		
Non-essential : Linseed	238	256	161	37	3,68,76	3,99,98			3,10,08			1,10,07		
Groundnut	339	305	258	241	4,06,35	4,88,43			5,12,53			8,21,81		
Rapeseed	35	34	35	18	46,92	45,62			66,28			57,14		
Sesamum	4	9	10	6	6,91	14,26			24,68			21,25		
Castor	67	20	29	14	1,18,73	27,09			59,63			53,13		
Copra	...	...	...	...	38	46			79			...		
Cotton	...	...	1	1	14	20			49			3,45		
Mustard	4	1	1	...	9,56	1,15			3,35			1,65		
Mowra	...	...	...	...	...	4			11			10		
Poppy	...	1	...	...	65	3,28			1,22			3		
Other sorts	3	3	4	4	8,07	8,59			31,33			20,46		
TOTAL	704	647	512	326	10,04,92	10,43,16			10,51,76			11,14,92		

<sup>1</sup> Review of the Trade of India (1929-30, 1939-40 and 1943-4).



TABLE III

	Pre-war average (1909-10 1913-14)	War average (1914-15 1918-19)	Post-war average (1919-20 1923-4)	1927-8	1930-1	1936-7	1939-40	1941-2	1942-3	1943-4
Rice ...	9	5	5	8	7	4	1.1	1.3	1.1	0.1
Wheat ...	14	9	3	4	2	2	0.1	1.8	0.1	0.3
Tea ...	96	89	95	91(a)	91	77	78.9	76.2	57.3	71.9
Cotton (raw)...	56	51	61	46	75	68	59.6	23.1	6.4	5.3
Jute (raw) ...	51	31	48	49	31	53	33.0	32.2	15.0	14.2
Linseed ...	73	63	59	63	68	71	46.9	71.0	39.2	9.7
Rape and Mustard ...	23	8	19	8	4	4	2.2	3.2	3.4	2.0
Sesamum ...	25	8	6	2	0.2	3	0.8	2.1	2.2	1.4
Groundnuts ...	35	12	19	24	19	26	18.3	15.0	9.0	6.3
Indigo ...	40	44	27	17	7	(b)	(b)	(b)	(b)	...
(a) In 1926-7.							(b) Not available.			

TABLE IV

	1939-43	1943-4		1939-43	1943-4
Cotton (raw) ...	15.26	3.75	Oil-cakes ...	1.00	0.07
Jute (raw) ...	9.70	4.17	Spices ...	0.53	0.72
Grain, pulse and flour	2.49	1.15	Tobacco ...	1.24	0.38
Tea ...	12.82	18.94	Coffee ...	0.36	0.35
Seeds ...	5.85	5.58	Fruits & Vegetables	1.16	1.14

§9. Restrictions on the export of foodstuffs.<sup>1</sup>—Although exports of rice from India have greatly diminished since the separation of Burma in 1937, rice, as seen in Table I above, continues to be by far the most important among the food-grains exported. The position of wheat (which was until recently the second chief food-grain exported) in the export trade has already been discussed and we have seen that the exports have recently sunk very low. When therefore we discuss the question of the export of foodstuffs, the main reference at present is to rice,<sup>2</sup> the importance of which, as stated above, has considerably diminished since the separation of Burma. Indeed before the second world war protective measures had to be adopted to check the import of wheat and rice. Is

<sup>1</sup> The whole of the argument in §§ 9 and 10 is useful as an aid to clear thinking. But it assumes normal conditions and general prevalence of *laissez-faire* economy. It has little relevance under the emergency conditions created by the recent war when Government regulation and control tended to become all-pervasive. Although the actual methods of regulation and control have provoked bitter criticism, the present necessity of purposeful and comprehensive Government intervention is almost universally recognized.

<sup>2</sup> Though India is the largest producer of rice in the world, and the second largest in the case of wheat, her export trade in both these commodities is of little importance, as most of the production is consumed in the country.—*Indian Finance* (Eastern Group Number, 1940), p. 185. As already pointed out, India imports a considerable quantity of rice, mostly from Burma. Pulses, barley, jowar, bajra and maize are the other food-grains exported, but the aggregate quantity exported is comparatively small.

the export of foodstuffs and raw materials a matter for congratulation or for alarm? There are those who hold that this export is a sign of increasing prosperity. It shows that the country is profiting by advantageous world prices and is sending out the surplus that remains after meeting the need of the home population, and is importing, by way of payment for its exports, cheap manufactured articles which cannot be produced profitably within the country itself. According to this view, the exports represent 'a true surplus, that is to say, a margin which India can relinquish during periods of good harvest and a reserve on which she can draw for her own local requirements in times of scarcity'.<sup>1</sup>

The other view is that the export of foodstuffs and raw materials is not a true surplus in the sense that it represents a balance that remains after the needs of the country have been fully met, and that it is advisable, in the true interests of the country, to prohibit or to restrict this export by heavy duties. It is criminal, so it is argued, to allow an export of the country's foodstuffs when large sections of the people are living on the verge of starvation, and to look on complacently while a drain to foreign countries of valuable raw materials, which are badly wanted for the development of indigenous manufactures, is going on unchecked.

In connexion with this controversy, we must emphasize a simple truth which is often forgotten, namely, that it is inadmissible to infer, from the mere fact of export to foreign countries, that the wants of the people in the exporting country in respect of the commodities exported must have been fully satisfied. The phrase 'true surplus' generally employed in this connexion is unfortunate because it suggests that there is such a thing as a 'false surplus'. Strictly speaking, all surpluses that are exported have the same scientific character; they are due to the fact that there is no demand for them in the country of origin at the ruling prices. By demand, as every tyro in economics knows, we understand not merely the desire to possess a thing, but such desire backed by adequate purchasing power. If the United States exports wheat, this is not because every individual American has all the food he can consume; similarly, in India, the export of foodstuffs does not mean that nobody in the country has any use for the food that is exported. The only difference between India and the United States is that relatively to the latter country, the former has a very much larger proportion of people whose demand for food is ineffective. It is a difference in degree, not in kind. When therefore the first Fiscal Commission sapiently remarked with regard to the export of rice and wheat from India that 'at existing prices the efficient demand of India is satisfied, and there remains a surplus available for export',<sup>2</sup> they were saying something which is perfectly true but also perfectly useless. At 'existing prices', whether high or low, 'efficient demand' is always satisfied. But in spite of the satisfaction of 'the efficient

<sup>1</sup> T. Worswick (ed.), *Economic Resources of the Empire*, p. 145.

<sup>2</sup> *Fiscal Commission Report*, p. 155.

demand' for food, millions of people in a country may be underfed, and that is patently the case in India.

There are two methods (which clearly are not mutually exclusive) of remedying this state of affairs. One is to depress the prices of foodstuffs so as to bring them within the reach of the low purchasing power of the masses; and the other is to raise their purchasing power so as to make their demand effective at current prices.

One of the ways suggested for bringing down prices of foodstuffs is to prevent their export abroad. The question is, would prohibition of export or the imposition of heavy export duties give us the desired level of low prices, and if so, would any injurious reactions on the economic life of the country be set up by thus artificially lowering them?

It has been argued by those who oppose any deliberate attempt to bring down the prices of food-grains by such means that to prohibit their export would naturally lead to the substituted production of non-food crops like cotton, jute, oil-seeds, etc., unless these also came under the policy of restriction; and thus an attempt to cheapen the food supply of the country would merely result in diminished production of food-grains, and the situation, from the point of view of feeding the population adequately, would be worse than before.

We need not dispute that prohibition or heavy export duties will, other things remaining the same, necessarily result in a certain shrinkage in the total production of foodstuffs. If the supply is very elastic, it is possible that the effect of this production would be to make the amount available in the country less than before. On the other hand, it is quite consistent with the admission that the supply would be curtailed to some extent to hold, nevertheless, that there might remain a larger quantity of food available for the home market. We cannot dogmatically lay down the proposition that prohibition will necessarily result in a smaller quantity remaining in the country than before. It may not be feasible for a large number of cultivators to turn their lands over to the cultivation of the non-food crops. And in spite of falling profits, the cultivator may go on producing more or less the same quantity as before. Everyone who has the least acquaintance with the actual condition of the agriculturist in India will realize how difficult it is for him to abandon the narrow groove in which he may be moving and quickly respond to altered circumstances. It is, therefore, not improbable that the food supply in the country may increase as the result of the policy of prohibiting exports.

While, therefore, we do not agree with the usual arguments in favour of unhindered exports of foodstuffs, we are nevertheless not convinced that a policy of restriction would be desirable. We have already hinted above that India's exports represent relatively an insignificant proportion of her total production, so that even if they are wholly retained in the country, the impression that will be made on the prices of foodstuffs in general will be very slight, and, what is more important, this slight gain will be at the expense of the cultivators, whose loss by a policy of

prohibition in the case of wheat was calculated by the Fiscal Commission (1923) at Rs. 16 crores. Another minor point made by the Fiscal Commission is that agricultural improvements will be prejudicially affected by the policy under discussion. High prices benefit the more prosperous cultivators more than any other class, and it is to this class, possessed as it is of the requisite capital and intelligence, that we must look for the introduction of improvements; and lower prices, by reducing the prosperity of this class, would make them less capable of undertaking this valuable work. This argument, although it is easy to overrate it, must be admitted to be sound as far as it goes. The only satisfactory method of cheapening food-grains is to make agriculture more efficient and stimulate the production of food-grains. As to the question of increasing the purchasing power of the masses so as to enable them to obtain the means of commanding a sufficiency of food, it will always remain a worthy goal of public policy.

Although we are not in favour of restricting the export of foodstuffs in normal times, we recognize that abnormal conditions might arise necessitating a temporary resort to heavy export duties. There may be a very serious local failure, or there may be an exceptionally strong demand for Indian produce owing to shortage elsewhere, as was the case during both world wars, and prices may threaten to rise to heights which it is unsafe to reach. In spite of the considerable administrative and other difficulties involved in Government interference, it may be necessary for the Government to take such action, not only with a view to relieving the situation, but also because public opinion may demand the adoption of emergency measures. It is true that a rise in Indian prices owing to local shortage will automatically diminish the exports to world markets, but before this has occurred to the required extent, a considerable amount of export may have already taken place if only because of the financial commitments of producers to dealers and of dealers to exporters and in order to retain this for home consumption and to prevent a sharp rise in prices, the Government will have to act as soon as they scent danger instead of waiting for the automatic remedy to come into action.

§10. Restrictions on the export of raw materials.—With regard to the export of raw materials it is not necessary to recapitulate the points raised in connexion with the interpretation of the term 'true surplus'.

Several arguments have been put forward against the free export of the raw materials of industry derived from agriculture. In the first place, it is argued that the high prices secured for the export of such commercial non-food crops as cotton, jute and oil-seeds have led to the substitution of non-food for food crops and the utilization of the best lands for the cultivation of such crops, food-grains being relegated to the inferior soils.<sup>1</sup> The total area, however, occupied by commercial crops at the expense of

<sup>1</sup> See K. L. Datta, *Report on the Enquiry into the Rise of Prices in India* (1914), pp. 64-6.

food-grains is very small compared with the total area under the latter.<sup>1</sup>

It is no doubt true that the area under non-food crops is slowly gaining at the expense of the area under food crops, but the disparity between them as regards total production is at present overwhelmingly in favour of food crops, and the contingency of the food supply seriously contracting owing to the encroachment of commercial crops is so remote that there is no immediate cause for anxiety. We do not think that the time has yet arrived for taking any special measures in the interests of the conservation of the nation's food resources, particularly by the drastic method of checking the production and the export of the commercial crops. We must not lose sight of the fact that the production of commercial crops brings substantial profits to the cultivators engaged in it, and there is no strong reason at the present moment for interfering with the cultivator's freedom in the matter of growing such crops as appear most remunerative to him.

Another objection to the free export of raw materials is that by such a policy the price of the important raw materials of manufacturing industry—such as cotton, jute and oil-seeds—is made too high for Indian industrialists to be able to hold their own against foreign competitors. If these exports are restricted, the Indian manufacturer will benefit by cheap raw materials—an advantage not available to the foreign manufacturer. While we admit the necessity of extending protection to the nascent industries of the country, we are doubtful as to the efficacy, for this purpose, of artificially lowering the prices of raw materials, which after all contribute a very small proportion to the total value of the manufactured products. The necessary protection is much more effectively given by a system of bounties and protective import duties.

A third argument is that the continuous cultivation of the land under heavy crops like cotton, jute, etc., results in the progressive exhaustion of the soil. In this connexion it is alleged that the large export of oil-seeds and oil-cakes is particularly objectionable. The soil is subjected to a process of steady deterioration as it does not get back what is taken away from it. Protective export duties on oil-seeds and heavy export duties on oil-cakes, bone and fish manures have been advocated in order to prevent the alleged process of soil exhaustion. Incidentally we may remark that the duty on oil-seeds is also supported on the ground that it will promote the growth of the local oil-crushing industry. As regards soil exhaustion, whether it is actually taking place is a matter of dispute.<sup>2</sup> But even supposing that it is not taking place, there can be no question that the soil will benefit by the application of more manure than is given to it in the present circumstances. From this point of view, a moderate export duty on oil-seeds and oil-cakes may be advocated, and part of the

<sup>1</sup> See tables above, pp. 162-3.

<sup>2</sup> See § 12 below.

proceeds from the duty may be set aside to finance propaganda necessary in order to ensure increasing application of such manures, which may be expected to fall in price and come within easier reach of the cultivator's resources, without at the same time inflicting serious economic injury on the grower of oil-seeds. The Agricultural Commission upheld the view of the Fiscal Commission that neither an export tax on oil-seeds or oil-cakes nor the total prohibition of such exports can be justified.<sup>1</sup> They have argued that the export duty will fall on the producers, as India is by no means the chief producer of the world's oil-seeds, and that it will hurt the agriculturist as grower more than it will benefit him as consumer of oil-seeds and oil-cakes. In the judgement of the Commission, the only method by which the advantages of supply of combined nitrogen available in the large crops of oil-seeds grown in India can be secured is by the natural development of the oil-crushing industry, and though this is a difficult matter owing to inadequate demand for oil in India and the existence of severe European competition in outside markets it would be worth while carefully investigating the possibilities of the industry in India having special regard to the loss of the Continental market during and since the second world war.<sup>2</sup>

§11. Low yield and its causes.—Although agriculture is practically the only national industry in India, it is conducted under highly unsatisfactory conditions, and the average yield per acre of the different crops is consequently very much lower than in countries where agriculture is better organized. The following table shows the average yield per acre of the principal crops in India in 1918-19, 1923-4, 1939-40 and 1940-1.<sup>3</sup>

Crop	1918-19 (lb.)	1923-4 (lb.)	1939-40 (lb.)	1940-1 (lb.)	1943-4 (lb.)
Rice (cleaned) ...	701	798	766	674	847
Wheat ...	707	694	709	645	642
Sugar-cane (raw sugar) ...	1,897	2,544	2,868	2,827	3,094
Tea ...	561	528	544 (1939)	557 (1940)	685
Cotton (ginned) ...	76	87	91	104	100
Jute ...	1,195 (1918)	1,164 (1924)	928 (1940)	1,023	1,183
Coffee ...	183 (1919-20)	139	189 (1938-9)	174	192
Linseed ...	265	278	281	268	242
Rape and mustard ...	351	416	410	396	385
Sesamum ...	174	192	230	237	225
Groundnut (nuts in shell) ...	997	867	860	946	873
Castor seed ...		207 (1924-5)	216	230	203
Rubber ...	115 (1919)	121 (1924)	234 (1939)	257 (1940)	254

<sup>1</sup> The export duty was, however, advocated by the Board of Agriculture in 1939 and by the majority of the Taxation Enquiry Committee.

<sup>2</sup> See *Agricultural Commission Report*, par. 87.

<sup>3</sup> See *Estimates of Area and Yield of the Principal Crops in India (1943-4)*, pp. 9-11.

These figures compare very unfavourably with those in foreign countries. For example, the average yield per acre in the case of rice was 1,240 lb. in India, as compared to 3,444 lb. in Japan and 4,568 in Italy in 1932-3. In the case of wheat, the average yield per acre in India amounted to about 660 lb. as compared to 1,383 in Italy, 1,918 in Egypt, 1,713 in Japan and 812 in the United States.<sup>1</sup> The average yield of cotton per acre in India is less than one-third of that in Egypt. We have already pointed out that the yield of sugar per acre in India is very low as compared to that of Cuba or Java.

Referring to the low productivity of Indian agriculture Sir M. Visvesvaraya writes: 'On the normal pre-war [i.e. before 1914] basis, the average production of British India, including irrigated crops, cannot be more than Rs. 25 per acre; in Japan it cannot be less than Rs. 150.'<sup>2</sup> The same writer points out that while the per capita agricultural income was Rs. 59 in India (before the depression of 1929), the corresponding figure was Rs. 102 in Sweden, Rs. 175 in the United States and Rs. 213 in Canada.<sup>3</sup>

One of the obvious causes of low productivity in India is the uncertain character of the rainfall. Apart from shortage and abnormal distribution of rainfall there are other causes, such as floods, hailstorms, frosts and other perplexing vagaries of the climate. Irrigation supplies a partial corrective to deficiency of rainfall, but the effect of the other calamities mentioned above cannot altogether be offset by human contrivance. Much damage is also caused by wild animals, rats, locusts and other pests, and the provincial Agricultural Departments have addressed themselves with some success to the task of devising and popularizing remedies against them.

Inefficient tillage and the under-equipment of the agriculturist further account for the low yield. The use of mechanical power-driven wheel and crawl tractors for ploughing and drawing seed-sowing drills and for harvesting can bring under cultivation otherwise uncultivable land. Deep-rooted weeds can be eradicated. Draft animals can be substituted by milch-cattle when machines do their work. Small tractors may be drawn by animals as in certain European countries. The U. P. Government has begun bringing under cultivation three colonies—the Ganga Khadar colony being the biggest single block—with the use of their 'tractor' corps. now the biggest in India. At present the organization has 150 tractors. This will be raised to 350 by the end of 1948-9. Already 30,000 acres have been reclaimed for cultivation and it is hoped 40,000 more will be before the year is out. The Ministry aims at bringing every possible acre under the plough. If it is able to realize the target set for the next four years the food production of the province will go up by at least 40,000 tons by 1951. The cost—the earlier estimate of this year was Rs. 50 lakhs—

<sup>1</sup> *Statistical Year-Book of the League of Nations* (1913-14).

<sup>2</sup> *Reconstructing India*, p. 174.

<sup>3</sup> *Planned Economy for India*, p. 32.

will be substantial. Many workshops will do repair work and manufacture spare parts. The problems arising in this connexion, as also the excessive subdivision and fragmentation of land leading to wasteful husbandry, will be discussed later on.

§12. Is the soil progressively deteriorating in India?—It has been asserted that in recent years the average yield per acre of food-grains in India has diminished and is diminishing. Assuming this to be so, however, it cannot be regarded as conclusive evidence of soil deterioration. It may well be due to the tendency of relegating the production of food-grains to inferior soils and reserving the better kinds of soil for the cultivation of commercial crops such as cotton, jute, oil-seeds, etc. The very general belief that the average yield per acre, not only of food but other crops as well, has diminished owing to progressive exhaustion of the soil, may be partly due to the fact that with the increase in the demand for agricultural produce cultivation has been extended so as to bring under cultivation the poorer lands. This would naturally diminish the average yield per acre. The cultivator's judgement in this matter is likely to be vitiated by his memory of times when only the better classes of land were under cultivation. Density of population may also lead to a diminution in the number of periodical fallows and consequent increase in weeds and in the area cultivated in relation to available supplies of manure, resulting in soil deterioration.<sup>1</sup> Erosion, salt-efflorescence and water-logging have in certain parts of the country caused much damage to the soil, reducing its fertility.

Apart from these considerations, the weight of expert authority seems to be against the theory that in recent times the soil in India has been losing its power more and more with every year that passes. Dr Clouston, in his written Memorandum to the Agricultural Commission, says : ' Most Indian soils must have reached their maximum state of impoverishment hundreds of years ago and will not get any poorer even if cropped without manures for hundreds of years more. An average crop uses up about 20 pounds of nitrogen per acre, but the loss is made up annually, for the soil gets nitrogen from the air and from the decay of root matter left in the soil after the crop is harvested, with the result that most soils are not getting any poorer in nitrogen. . . . It was definitely proved at Rothamsted, the premier agricultural research station in the world, that the unmanured soil there did not reach its maximum state of impoverishment till after being cropped continuously with wheat for a period of 40 years, since when the yield from year to year has remained almost stationary, despite the fact that no manure has ever been applied to the field. We may take it therefore that, with the exception of the limited area in this country, the soils of which are deficient in phosphates, our old cultivated land has long since reached its maximum state of impoverishment; that increased yields now depend upon the rainfall,



standard of tillage and manure applied ; that only new land or lands deficient in phosphates are being impoverished by cultivation.<sup>1</sup> Dr Voelcker held that in the case of Indian lands generally, owing to exports of seeds, cotton and other products, the soil constituents that are removed are not returned to the soil, which consequently is suffering continuous exhaustion. Even he, however, qualified this view by calling attention to the fact that a large proportion of the crops annually grown in India and also of the trees and shrubs and even the weeds, are leguminous in character and may thus derive their nitrogen from the atmosphere.<sup>2</sup> K. L. Datta after considering all available figures comes to the conclusion that 'there is no statistical evidence to show that any change has taken place in the fertility of agricultural land in any part of India, either during the period under inquiry (1890-1912) or even during a much longer period'.<sup>3</sup> However that may be, the most important fact from our point of view is the actual low productivity of the soil in India and that proper care of the soil and the application of adequate quantities of manure are the only means of improving the yield. It is cold comfort to be assured that a balance has been established, and that the soil cannot be deteriorating because the maximum state of impoverishment must have been reached long ago. For this after all means that things are already so bad that they cannot possibly get worse. In this connexion the Agricultural Commission emphasized the importance of research work on soils and soil conditions and recommended an increase of research workers in the Agricultural Departments and the appointment of specialist officers, especially in the direction of bacteriological, physical and biological research.<sup>4</sup>

<sup>1</sup> *Minutes of Evidence*, vol. I, part i, p. 32.      <sup>2</sup> See Datta, *op. cit.*, p. 17.

<sup>3</sup> *op. cit.*, p. 68.      <sup>4</sup> *Agricultural Commission Report*, par. 78.

## CHAPTER VII

### AGRICULTURE: LAND AND ITS PROBLEMS

IN this chapter the principal problems relating to land will be discussed under the headings of (i) Subdivision and Fragmentation ; (ii) Permanent Improvements ; and (iii) Irrigation.<sup>1</sup>

#### SUBDIVISION AND FRAGMENTATION

§1. The idea of an optimum holding.—One of the many causes responsible for the backwardness of agriculture in India and the impoverishment of the ryot is the endless subdivision and fragmentation of land. As in manufactures so in agriculture ; there is a certain scale of production which gives the best result from the point of view of the producer. After a certain point, any further decrease in the scale of production makes the relation between cost and yield less and less favourable until profit disappears altogether. There is, indeed, also a point beyond which it is not profitable to *increase* the size of a holding, but throughout the discussion on which we are about to embark, this possibility will be ignored as being of no practical importance in India.

§2. Unit of cultivation and unit of ownership.—When we talk of a suitable size for a holding, what we are really thinking of is the unit of cultivation and not necessarily the amount of land held in ownership, though the two tend to coincide in the ryotwari tracts in India. As Mill points out, 'it does not follow, because landed property is minutely divided, that farms will be so. As large properties are perfectly compatible with small farms, so are small properties with farms of an adequate size ; and a subdivision of occupancy is not an inevitable consequence of even undue multiplication among peasant proprietors' provided, that is, that the patrimony is not divided. Or, as Nicholson puts it, 'large estates do not necessarily imply cultivation on a large scale, nor does a wider system of ownership necessarily imply small cultivation. The great estate may be let out in small farms, and a large farmer may rent land from several owners'.<sup>2</sup>

If a cultivator's own holding is too small for economic cultivation, he may rectify this by taking on lease additional land from other people.<sup>3</sup> This does happen to some extent in India and we must make an allowance for it in interpreting the statistics relating to the size of holdings and its economic effects. We must further allow for cases of joint cultivation.

<sup>1</sup> The treatment of the important subject of Land Tenure has been reserved for a separate chapter (ch. xii).

<sup>2</sup> *Principles of Political Economy*, vol. I, p. 149.

<sup>3</sup> The economic benefit to the cultivator would obviously be smaller in the case of the leased lands than in the case of land that is owned, because rent is higher than assessment.

We are not entitled to assume straightaway, without further inquiry, that every bit of land separately owned is also separately cultivated. Though such an assumption may be generally true, it is not invariably so.

Another phenomenon with which subdivision of land is, in almost every case, associated in India, is that of fragmentation of land. Not only is the size of the holding too small but it is scattered in a number of tiny parcels situated at inconvenient distances one from another.

The Agricultural Commission considered the problem of subdivision and fragmentation under the following four headings: (i) the subdivision of holdings of right-holders; (ii) the subdivision of holdings of cultivators; (iii) the fragmentation of holdings of right-holders; and (iv) the fragmentation of holdings of cultivators. The term 'right-holders' is used to denote those who possess some permanent hereditary right in land, whether as owners, occupancy tenants or *patta* holders; while the term 'cultivators' is used to denote all who cultivate land in any capacity, whether as owners, *patta* holders, occupancy tenants, or tenants-at-will; but not as hired labourers.<sup>1</sup> In our treatment of the subject we have found it convenient to assume what is broadly true, namely that subdivision and fragmentation of right-holders' holdings tends to be reflected in a corresponding subdivision and fragmentation of cultivation: and what will cure the one will, to a considerable extent, cure the other.

§3. Evils of subdivision and fragmentation.—The cultivation of an unduly small holding entails waste in a variety of ways. It may not task to its full strength even such poor equipment as the ordinary cultivator possesses, namely a pair of bullocks and a plough. The plots are sometimes so small that it is scarcely possible to turn the bullocks round while ploughing. The cost of maintaining the bullocks and the cultivator himself remains the same; it does not diminish because the holding is smaller than can be adequately cultivated with the help of the standing equipment. The yield, on the other hand, is bound to be less. More generally speaking all fixed costs come to bear a larger proportion to the value of the product with every diminution, after a certain point, of the size of the holding. Even as regards costs that are variable, some of them do not vary exactly in proportion to the variation in the size of the plot. For example, the cost per acre of fencing increases with the diminution in the area enclosed. When a piece of land is too small, it may not be worth while incurring the expenditure for fencing against stray cattle. And the inability to protect the fields by proper fences will impose on all farmers a uniform system of cultivation. No new system of cultivation or of rotation of crops is possible because of the liability of crops to be damaged by cattle straying from the neighbouring fallow fields. If fencing is prohibitive, engaging watchmen would generally be even more so. Such a position must be disheartening in the extreme to the enterprising farmer with ideas. Another disadvantage attendant on a multiplication of small fields is the great

<sup>1</sup> *Agricultural Commission Report*, par. 78.

waste of area which it involves. A great many more hedges, paths, etc., are required, and the total area wasted in this manner is very considerable. The smaller the number of individual fields, the greater will be the saving in the area available for cultivation. Again, there may be plenty of subsoil water in a field but advantage cannot be taken of this fact, because digging a well would mean wholly disproportionate expenditure considering the extremely small size of the field. It may be worth while sinking a well if it commands, say, four or five acres of land, but not so if the land is only about an acre or less. The employment of labour-saving devices such as tractors, threshers, winnowers, etc., is impossible for the small holder unless there is some form of co-operation or union of efforts and resources—which, however, is not easily achieved. All the disadvantages springing from an unduly small holding are obviously intensified in the holding which, in addition to being small, is also badly assembled. Speaking about fragmentation Dr H. H. Mann says : ‘ It has, in fact, all the evils of very small holdings in that it prevents the use of machinery and labour-saving methods ; and, on the other hand, of large holdings in that it hinders the adoption of really intensive cultivation by hand labour which is the great advantage of the small holder.’<sup>1</sup> Difficulties in connexion with putting up fences, protection from the invasion of weeds from the neighbouring fields, protection from stray cattle and from the depredations of thieves are common to excessive subdivision and fragmentation.

There are, however, certain additional drawbacks peculiar to fragmentation. It involves a greater expenditure of capital and labour and a smaller return than if the same area is in one compact block. It is calculated that expenditure of cultivation increases by 5.3 per cent for every 500 metres of distance for manual labour and ploughing ; from 20 per cent to 35 per cent for transport of manure ; and from 15 to 32 per cent for transport of crops. It is obvious that fragmentation adds to expenditure in all these ways. Further, it impedes cultivation, entails great waste of time, labour and cattle-power in going from the village site to the fields and from one field to another. It evidently makes it impossible for the cultivator to stay on his holding in the interests of efficient cultivation. Very often, in order to save time, the cultivator tries to find a short cut through other people’s fields. This, together, with disputes about boundaries and rights of way, is a fruitful source of litigation and endless quarrels among village folk. If the cultivator had all his land in one compact block, he would keep his cattle on the farm instead of taking them to the village site, and this would mean a very great saving of manure. As it is, manure has to be carried to the field from the village dunghill and consequently much of it is wasted. When land is excessively fragmented, irrigation often becomes impracticable, although sufficient water may be available. Water cannot be supplied so as to reach all the little

<sup>1</sup>*Land and Labour in a Deccan Village*, vol. I, p. 48.

parcels into which an individual holding may be cut up, and besides this there is the difficulty of taking the water by channels which will have to run through other people's fields. It is well known that difficulties over the channel along which water is to be taken as well as over its distribution lead to much bickering and bad blood.

The combined result of subdivision and fragmentation is sometimes to drive the land entirely out of cultivation. Dr Mann sums up the evils as follows: 'This destroys enterprise, results in an enormous wastage of labour, leads to a very large loss of land owing to boundaries, makes it impossible to cultivate holdings as intensively as would otherwise be possible, and prevents the possibility of introducing outsiders, with more money, as tenant farmers or as purchasers of a good agricultural property.'<sup>1</sup>

§4. Case for fragmentation and subdivision.—It must not be supposed that all cases of fragmentation are undesirable. The lack of a holding in one compact block may, indeed, be due to perfectly sound economic considerations. The holding of land in different soil areas may be necessary as affording a certain amount of insurance against the vagaries of the seasons. 'In many parts of India we find that two or more staple crops are grown in dispersed fields in different soil areas, so that, while a deficiency or an irregular distribution of rainfall may destroy one crop, there may be favourable returns from other fields. Indeed, the elaborate system of crop rotation which distinguishes Indian from Western farming has been possible chiefly because the holdings are dispersed.'<sup>2</sup> On account of the variety of crops also there is occupation for the cultivator for more days in the year than may be possible on a compact homogeneous block. It is easy to multiply instances of scattered holdings governed by considerations of economic advantage. In the Konkan, for instance, the cultivation of rice lands necessitates the possession of a certain amount of *warkas* land, and therefore both these must go together. Similarly, above the Ghats, especially on the riverside, it is absolutely necessary for the cultivator to possess at least a small strip of *mali* or alluvial land. It supplies him with fodder for his cattle and is useful in other ways. Any scheme of consolidation therefore must take these facts into account if it is to be successful.

Similarly, up to a point, subdivision can be defended as leading to a widespread distribution of property in land and the creation of a large class of peasant proprietors strongly attached to their land, recognized on all hands as conducive to economic and social stability. This is a consideration which must be borne in mind in framing schemes for the enlargement of the present holdings in India. Large estates and capitalistic farming on the lines of the English model would not be suitable to Indian conditions. Small-scale farming and a strong class of peasant proprietors are the ideals to be aimed at.

<sup>1</sup> op. cit., p. 154.

<sup>2</sup> *Indian Journal of Economics* (April 1927), Radhakamal Mukerjee's article on Fractionalization.

When, however, we decry subdivision and fragmentation, we have in mind instances where justification and extenuating circumstances such as these are altogether absent and the evils have reached an intolerable stage.

§5. *Extent of the evil in India.—I. Subdivision of holdings of right-holders.* Let us now try to realize the extent of the evil which is to be found in nearly all parts of India.<sup>1</sup> In the thickly populated areas of Bihar and Orissa, the tenant holding averages less than half an acre though the average per cultivator is 3.1 acres. In Bengal, the cultivated area amounts to scarcely 3.1 acres per cultivator. The very rights which the cultivator has in his land and which have been secured for him by special tenancy legislation make the cultivator stick like a limpet to his petty holding and prevent him from going in search of work in industrial centres except in the last extremity. In Assam, the size of an average holding is no more than 3 acres, while in the United Provinces it is only 2.5 acres. A special inquiry into 2,397 villages in the Punjab disclosed that 17.9 per cent of the 'owner' holdings were under 1 acre; a further 25.5 per cent were between 1 and 3 acres; 14.9 per cent between 4 and 5 acres, and a further 18 per cent between 5 and 10 acres. The holdings under 1 acre were the subject of special inquiry, and it was found that a large number were agricultural holdings. In Madras and Bombay, the average area of the holding is small, and many of the holdings are less than 2 or 3 acres, so that effective cultivation is impossible. The proportion of holdings under 1 acre is high. In Bombay, Sir Chunilal Mehta showed how in all Divisions holdings were increasing faster than the area occupied and how this tendency was particularly noticeable in holdings of 5 acres and less. According to Dr Mann, the average size of the holding in the village of Pimpla Soudagar in the Poona District appears to have been as much as 40 acres in 1771; in 1818, it had come down to 17½ acres; from 1820 it long remained stable at 14 acres but by 1915 was reduced to 7 acres. 'It is evident', says Dr Mann, 'that in the last 60 to 70 years the character of land holdings has altogether changed. In the pre-British days, and the early days of the British rule, the holdings were usually of a fair size, most frequently more than 9 or 10 acres, while individual holdings of less than 2 acres were hardly known. Now, the number of holdings is more than doubled and 81 per cent of these holdings are under 10 acres in size while no less than 60 per cent are less than 5 acres.'<sup>2</sup>

*II. Subdivision of cultivation.*—Subdivision of cultivation is even more

<sup>1</sup> In connexion with the evil of fractionalization, statistics of the acreage per head of population are sometimes given. If we divide the total sown area in 'British' India by the total population we get a quotient of a little over 1.4 acres per head. This indicates the intensity of the pressure of the population on the soil, but is not directly relevant to the problem of subdivision and fragmentation. It shows that too many people depend on land, but it is not directly informative as to the extent to which the land is fractionalized.

<sup>2</sup> op. cit., p. 46.

pronounced, mere cultivators being more numerous than right-holders. A large number of people resort to agriculture for bare subsistence in the absence of any other means of livelihood. In the Punjab, 22.5 per cent of the cultivators cultivate 1 acre or less; a further 15.4 per cent cultivate between 1 and 2.5 acres; 17.9 per cent between 2.5 and 5 acres; and 20.5 between 5 and 10 acres.<sup>1</sup> In the *Census of India*, 1921, the number of cultivated acres per cultivator is given as follows:

Bombay	.. 12.2	Madras	.. 4.9
Punjab	.. 9.2	Bengal	.. 3.1
Central Provinces and Berar	.. 8.5	Bihar and Orissa	.. 3.1
Burma	.. 5.6	Assam	.. 3.0
		United Provinces	.. 2.5

*III. Fragmentation of holdings of right-holders.*—Fragmentation is a normal accompaniment of division of property according to the laws of inheritance, so that very few of the holdings are in one compact block. For example, in the Bombay province there are about three to four plots per holding. In the village of Pimpla Soudagar, Dr Mann found that 156 owners had between them no less than 729 plots of which 463 were less than 1 acre, and 211 were less than a quarter of an acre. In Ratnagiri, the size of individual plots is sometimes as small as 0.00625 of an acre, or  $30\frac{1}{4}$  square yards; in the Punjab, fields have been found over a mile long and but a few yards wide, while areas have been brought to notice where fragmentation has been carried so far as effectively to prevent all attempts at cultivation.

*IV. Fragmentation of cultivation.*—Fragmentation of cultivation is a far more serious and more extensive evil than fragmentation of holdings and is carried to greater extremes. In Pimpla Soudagar Dr Mann found that 62 per cent of the cultivators' plots were below 1 acre and in Jategaon the percentage was 31. Ramlal Bhalla found that in the village of Bairampur in the Punjab, 34.5 per cent of the cultivators had over 25 fragments each. This is typical of a widely prevalent situation.<sup>2</sup>

§6. Causes of subdivision and fragmentation.—Various causes have been put forward to account for the evil of excessive subdivision and fragmentation. One of these is the growth of the spirit of individualism which is responsible for the break-up of the joint family system. Joint cultivation is no longer as common as it used to be. The insistence on partition by metes and bounds, and separate cultivation, are much more frequent than in the old days. This spirit of individualism has been further assisted by the emphasis which English judges administering law in India have placed on private property and individual rights. Again, there are those who consider that the Hindu and Muslim laws of inheritance and succession

<sup>1</sup> For figures illustrating the growing tendency towards subdivision, see Wadia and Merchant: *Our Economic Problem*, third edition, pp. 175–8. See also *The Famine Inquiry Commission, Final Report* (hereafter referred to as *F. I. C. F. R.*) pp. 253–8.

<sup>2</sup> See *Agricultural Commission Report*, pars. 119–22.

and the customs associated with them are the *causa causans* of subdivision and fragmentation. It is easy to see how the size of the family holding would diminish with every division of the ancestral property. Subdivision, however, is also normally accompanied by fragmentation, because each sharer insists on obtaining a fractional share of each kind of land in every plot instead of being satisfied with one compact block.<sup>1</sup> The aim in such a system of partition is to ensure perfect equality of the shares. The same idea underlay the open-field system in medieval Europe under which strips were intermixed and scattered in order to divide equitably the good and the bad, the well- and ill-situated fields. But in India, this apparently equitable mode of division is carried to an extreme and is often vitiated by motives, not of equalizing advantages, but those rooted in jealousy and suspicion.<sup>2</sup>

As against the theory that the laws of inheritance and succession are primarily responsible for the evil, it has been argued that these laws have been in existence for hundreds of years, but that the evil which they are supposed to have caused is comparatively modern.<sup>3</sup> It must, however, be admitted that in the absence of these laws the evils we are discussing would not have manifested themselves on the present scale. The laws permit any one of the co-sharers to separate out his share if he chooses to do so. The desire to seek partition may be due to other causes but, given the will, the laws showed the way. We have already referred to the growth of the individualistic spirit as one of the causes why the tendency to insist on a partition is stronger today than it used to be. But this tendency finds actual expression through the laws of inheritance and succession. Instead of saying that these laws are the causes of subdivision and fragmentation, it would perhaps be more accurate to call them the instruments or the means by which continuous subdivision is affected. There is no compulsion to make use of the means, but it lies ready to hand whenever it is desired to put it into operation. It is true that in the old days it was not so frequently requisitioned as at present, but it is not true to say that the operation of these laws 'in the past did not lead to subdivision of holdings'.<sup>4</sup> We must rather say that their operation was rarely allowed, the joint family being the rule; whenever it was allowed, it inevitably led to subdivision.

<sup>1</sup> The result of this custom is that each plot is *subdivided* into as many plots as there are heirs, so that the number of fragmented holdings increases and is equal to the number of co-sharers.

<sup>2</sup> 'What are the reasons for the increase of fragmentation generation after generation, even without any material increase of the population? The reason is chiefly the terrible jealousy . . . among the brothers in almost every agricultural family. Each one will abate no chance to take advantage of the others. They will go so far as to fight over the partition of honey on the branch of a tree: they have even been known to fight over the partition of the shade of a tree not its fruits nor its branches.'—F. G. H. Anderson's speech, Bombay Legislative Council debates on the Small Holdings Bill, 10 October 1927.

<sup>3</sup> Wadia and Joshi, *Wealth of India*, p. 244.

<sup>4</sup> *ibid.*



Increase of population after the establishment of British rule is advanced as another cause. Increase of population would mean an increase in the number of heirs. But this in itself would not cause subdivision, unless there were other causes impelling the heirs to seek an out-and-out partition and break the joint family tradition in a way that was not common in the old days. So long as there was a good deal of unoccupied land, as for example in the Canal Colonies in the Punjab, this enabled the additional numbers to be provided for without subdividing land already occupied.<sup>1</sup> But when practically all the land that could easily be brought under the plough was occupied, the position became different and the only escape from subdivision was in joint cultivation which, as we have already hinted, became less and less common.<sup>2</sup>

The decline of the handicrafts due to the competition of machine-made goods is also regarded as one of the major causes of fragmentation. It is worth while, in order to clear our ideas on the subject, to try to understand the precise *modus operandi* of this alleged cause.

As we have seen, the artisans attached to the village usually possessed some land in the village. Those of them whose position steadily deteriorated owing to the competition of machine-made goods fell back on their land as the only resource. The family holding having become the sole means of support, its importance rose in the eyes of those who had a claim on it. The system of sharing the product of joint cultivation among the co-heirs according to the need of each probably began to appear unfair to those whose needs were smaller and who therefore absorbed a smaller share of the total product. The feeling of jealousy engendered in this manner possibly militated against the maintenance of the plan of common cultivation, and subdivision resulted. The land that may have been affected in this manner, however, must obviously have been negligible in amount.

As regards the artisans in the towns, they did not as a rule possess any land. When, owing to competition of machine-made goods, they lost their vocation, they became landless labourers. This may be looked upon as a cause of the increase of pressure on land but could not have had any direct influence on the division of the land. It is possible that some of the urban artisans migrated to the villages and bought or occupied a small piece of land which was uneconomic from the very beginning or became so in due course owing to the operation of the law of inheritance. It is, however, improbable that the artisans, who were driven to the land because their original occupation had ceased to be remunerative, should

<sup>1</sup> What we have in mind here is the subdivision of land already occupied and the average area held by each right-holder. The intrusion of new petty holders (for example moneylenders) in a village may reduce its average size of holding without affecting the position of ancestral holdings.—See *Agricultural Commission Report*, par. 119.

<sup>2</sup> The dissolution of the joint family, according to Anderson, has become especially marked since 1886, owing to the operation of the Income Tax Act.—See Bombay Legislative Council debates on the Small Holdings Bill.

have ordinarily commanded sufficient savings or credit to enable them to purchase land. In any case, unless the land so acquired was a slice out of an originally larger piece of land, the position so far as subdivision was concerned would remain the same as before. If, on the other hand, new land was occupied, this would add to the original number of holdings; it would not accentuate the subdivision of holdings that already existed. On the whole therefore we may hazard the statement that while the decline of the handicrafts resulted for the most part in an increase of landless labourers, its influence in the direction of increasing subdivision and fragmentation of holdings was not very great. In so far, however, as the handicraftsmen were turned into tenants, their demand for cultivable land must have resulted in greater subdivision and fragmentation of *cultivation*.

It is nevertheless possible to establish a causal connexion between the failure of industry to expand in proportion to the increase of population on the one hand, and extreme subdivision and fragmentation of holdings on the other. If the increase of population in recent times had been accompanied by a commensurate development of manufacturing industries, the superfluous population on the land would have been absorbed by it. If the family became too numerous to be maintained comfortably on its holding, some of the members would have moved to the industrial centres, leaving the rest to cultivate the family holding and enjoy the fruits of their labour. The legal right on the family land of those who left the village would remain. But if the employment in industries gave them the means of a decent existence, there would be a readiness on their part to forgo their claims on the income from the family land in favour of those who remained on it. Unfortunately, such a development failed to take place; population increased and the increase instead of flowing into industries flooded back on the land, and owing to the loosening of the bonds of the joint family and the development of separatist tendencies, resort to the law of inheritance became more and more the rule. Thus, paradoxically enough, with the increase in the pressure of economic disability, people adopted a course of action which resulted in adding to, instead of lessening, their embarrassment. Land was now their only resource. One would have thought that there was all the more reason, therefore, to make the most profitable use of it. But instead of treating it with the utmost care and consideration, it was cut up and mutilated in a most reckless and suicidal manner.

To sum up, then, we may say that increase in population, lack of a corresponding expansion of industry, the dissolution of the joint family and the growth of the individualistic spirit—all these factors assisted by the laws of inheritance and succession—must be regarded as the main causes of excessive subdivision and fragmentation of holdings.

When the evil reaches an intolerable stage certain automatic remedies may come into effect. For instance, the excessively small holding may be either sold or let out by the owner. But such instances are not sufficiently

common and do not affect the main problem to any appreciable extent. We must therefore recognize its existence in a serious form as established and proceed to discuss the possible remedies.

§7. What is an economic holding?—In India, attempts have been made in recent times to tackle the problem both on a voluntary basis as well as by the method of legal compulsion. Whatever the basis adopted, one of the questions that has always to be faced is the meaning of the term 'economic holding'. Several definitions have been suggested. Keatinge understands by an economic holding, 'a holding which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses,' and he goes on to remark that, 'in the Deccan, an ideal economic holding would consist of (say) forty or fifty acres of fair land in one block with at least one good irrigation well, and a house situated on the holding. The desirable area would vary greatly in different parts according to circumstances. A gardener in the Surat District with three acres of good garden land can support a family in comfort, while in the dry part of the Deccan with poor soil thirty acres might not suffice. Between the ideal economic holding and the obviously uneconomic holding there are many gradations; but it would not be difficult to fix a standard for any tract.'<sup>1</sup> Dr Mann defines an economic holding as 'one which will provide for an average family at the minimum standard of life considered satisfactory'.<sup>2</sup> Stanley Jevons, with reference to conditions in the United Provinces, desiderates about thirty acres for a model holding. His objective is to ensure to the farmer not only a 'reasonable', much less only a 'minimum standard', but a 'high standard' of living.

The definition of an economic holding will vary according to a number of factors; for instance, whether we are thinking of gross returns or net returns, whether the capital available is ample or strictly limited, etc. It would further depend on the nature of the methods of agricultural production, on whether cultivation is extensive or intensive, on the quality of the soil, on the presence or absence of irrigational facilities, on the crops raised, and so on.

This being understood, let us try to attach a precise connotation to the term 'economic holding'. Taking the case of an average family, we might say that the amount of land which would give the most profitable employment to the capital and labour that it commands would be the ideal holding. All kinds of factors have to be weighed, not excluding the possibility of employing the available capital and labour or a part of it in employment other than agriculture, the distribution of the capital and labour between agriculture and other occupations being determined on the principle of equimarginal returns. The object aimed at here would be the highest possible net return for every unit of capital and labour engaged in agriculture.

<sup>1</sup> *Progress of Agriculture in Western India*, pp. 52-3.

<sup>2</sup> *op. cit.*, vol. II, p. 43.

But some of the assumptions ordinarily made cannot be realized under actual conditions in India, especially as the assumption that labour is perfectly mobile as between agriculture and other occupations either within or without the village is not valid owing to the absence of rural industries and the inadequate development of manufacturing industry in urban areas. So far as Indian conditions are concerned, we have to assume that the labour which an average cultivator's family commands is practically not transferable to activities other than agriculture and that it is unconditionally available for agriculture alone.

The idea of an economic holding will perhaps be more easily grasped if we take a numerical example. Let us take an average family consisting of 5 members and, as our unit of labour, the labour that such a family can supply. Similarly, let us define as our minimum unit of capital, a pair of bullocks and a plough. These assumptions square well with prevalent conditions in India. Let us now suppose that this family possesses a holding of 5 acres on which a gross income of Rs. 150 can be obtained with the available labour and capital. Deduct from this the cost of maintaining the pair of bullocks, say, Rs. 40, and other costs amounting to, say, Rs. 20. This leaves the family with a net income of Rs.  $150 - 60 = 90$ .<sup>1</sup> Let us assume that a plough and a pair of bullocks together with the labour supplied by our average family can satisfactorily cultivate 20 acres. If therefore the family possesses a holding of 20 instead of 5 acres the result will be as follows: gross yield=Rs. 600; cost of maintaining the pair of bullocks=Rs. 40 as before; other costs about Rs. 80, that is, four times as much as before (though the likelihood is that the increase in the other costs will be less than exactly proportionate to increase in the acreage). This leaves us with a net income of Rs.  $600 - 120 = 480$ .

Let us assume that there are four such families A, B, C and D, each possessing 5 acres of land and each cultivating its holding separately. Each spends Rs. 60 (Rs. 40 for bullocks and Rs. 20 for other expenses) and gets Rs. 150 gross income and Rs. 90 net income.

Supposing they agree to cultivate jointly the whole area of 20 acres, which they own between them, they will then be able to dispense with three pairs of bullocks and will save Rs. 120 in the aggregate on that account. Assuming the same labour, that is the labour of only one family, is applied as before, the result will now be Rs. 600 gross income, out of which we deduct Rs. 40 for the bullocks and Rs. 80 for other expenses, which gives a net income of Rs. 480, and the share of each family is Rs. 120 instead of Rs. 90 when each cultivated its holding of 5 acres separately. Every family thus increases its income, although labour employed in the aggregate is now only one-fourth of what it was before, because according to our hypothesis 20 acres are required to occupy fully the labour supplied by one family.

<sup>1</sup> These figures are, of course, purely illustrative, but the substitution of any other figures will not affect the argument in any way.

The question, however, arises as to what is to be done with the extra labour that is available. It cannot find alternative employment in other occupations, because *ex hypothesi* there are none such. The choice is between agricultural work or no work. In these circumstances, some of the extra labour may as well be employed on the land, so long as it results in *some* increase of the product, though the increase may not be proportionate to the addition of the labour units. Let us suppose that the employment of the surplus labour increases the gross yield by Rs. 200. The position now is: (gross income Rs. 800)–(expenses Rs. 120)=Rs. 680 net income.

Let us now exhibit these cases in their order of merit:—

L stands for one unit of labour (that is one average family).

C stands for one unit of capital (that is a plough and a pair of bullocks).

Case I. 1L + 1C + 20 acres; net income=Rs. 480; income per head of the family =  $\frac{480}{5} = \text{Rs. } 96$ .

Case II. 4L + 1C + 20 acres; net income=Rs. 680; income per head =  $\text{Rs. } \frac{680}{5} = \text{Rs. } 34$ .

Case III. 4L + 4C + 20 acres; net income=Rs. 360; income per head =  $\text{Rs. } \frac{360}{5} = \text{Rs. } 18$ .

The best result is thus reached if a holding of 20 acres is combined with one unit of labour and one unit of capital. This is our economic holding. Any arrangement by which the ratios between land, labour and capital differ from those in the ideal holding thus defined will result in uneconomic holdings and reduce the income per head of the producers. The uneconomic holdings will be more and more economic in the measure in which the ratios are altered in the direction of the proportions in the ideal holding. Case I gives the best results from the point of view of the producers, provided the surplus labour of three families can be turned to some remunerative occupation other than agriculture. But if conditions are such that all the families depend exclusively on the 20 acres of land, Case II gives the best arrangement, because in Case I the total net income available for the four families is Rs. 480, whereas it is Rs. 680 in Case II. Nevertheless, this does not alter the fact that Case I gives the ideal proportions between land, labour and capital, so that given 4L, the best combination would have been 4L + 4C + 80 acres. But as we have only 20 acres available, we have to adopt the next best arrangement as in Case II, which incidentally brings out the fact that joint cultivation, to some extent, remedies the evil of excessive pressure on land.

It will be noticed that this method of envisaging the problem of defining an economic holding is less open to objection than that implied in some of the current definitions which we have given above. The expressions 'reasonable comfort', 'minimum standard' as well as a 'high standard' are all vague and ambiguous. If, on the other hand, we say that the end to be achieved is so to arrange the relation between land, labour and capital that it will lead to the greatest possible advantage to the producers, we get out of this difficulty. The greatest economic advantage may enable

the cultivator to maintain a very high standard of life or may fall short of what is deemed to be required even for a minimum standard. For example, the income per head of Rs. 96 in Case I above is not, it may be contended, enough for a decent standard of comfort. But all the same, it is the highest attainable. It is possible that in spite of the best combination that we are able to achieve between land, labour and capital, the result may not be wholly satisfactory. For this other remedies must be adopted, such as more efficient methods of production, better marketing facilities, etc. The creation of economic holdings is intended to ameliorate the ryot's position only in so far as it can be ameliorated by one particular method, namely, by putting him in possession of a reasonable-sized holding ; it does not promise to create a new heaven and a new earth for him. It is not a complete solution of the problem of the ryot. It is only one of the many lines along which that problem must be attacked.

§8. Remedial measures.—Let us now proceed to notice the remedial measures hitherto adopted or proposed for coping with the evil of subdivision and fragmentation in India. Under the auspices of the Co-operative Department interesting experiments in consolidation of scattered holdings by the formation of co-operative societies on the basis of persuasion and propaganda have been made in the Punjab with striking results since the work first began in 1920-1. The total number of Co-operative Consolidation of Holdings Societies in the province was 1,807 by the end of July 1943 and the area consolidated amounted to 1.45 million acres.<sup>1</sup> The pace of consolidation was accelerated by the Consolidation of Holdings Act passed in November 1936, allowing compulsion to be applied to a small and stubborn minority. The effect of consolidation of holdings, so far as it has been achieved, has been beneficial. Land has become more productive ; areas formerly uncultivated owing to excessive fragmentation have been brought under the plough ; litigation and quarrels have decreased and a keener desire for improvement is in evidence. The Punjab, however, is in some respects exceptionally well suited to such co-operative activity resulting in consolidation on a voluntary basis. For one thing, its villages are more homogeneous as regards land as well as population. Secondly, lands in the canal colonies being comparatively recently brought under cultivation, consolidation has been more easy to effect in their case. Thirdly, consolidation is also facilitated by the comparative simplicity of tenure.<sup>2</sup> Even under the best of conditions, however, the pace of the movement for consolidation is bound to be slow, and, further, there is no guarantee that in the future the work of consolidation will not be undone. One of the difficulties encountered is that consolidation costs more money than the people are at present ready to pay. A frequent

<sup>1</sup> *F. I. C. F. R.*, p. 262,

<sup>2</sup> For a discussion of the advantages of consolidation and the difficulties experienced in the course of the work, see the paper on 'Consolidation of Land Holdings in the

complaint is that those who are powerful and influential in the locality manage to get the best land for themselves. The Punjab experiment, again, addresses itself only to the problem of fragmentation and does not aim at checking subdivision.

The lead given by the Punjab has been followed by a few other provinces, notably the Central Provinces and Berar (see below), the United Provinces, and Indian States like Baroda. In the United Provinces the total area consolidated under the auspices of Co-operative Consolidation Societies based on the Punjab model (of which there were 182 in 1939-40) amounted to 77,672 *pacca bighas*. The number of plots on repartition were reduced by more than one-tenth. With the enactment of the Consolidation of Holdings Act (1939) the activities of these Societies have not come to an end. As in the Punjab, consolidation under the Act and on a co-operative basis go on in different areas side by side.<sup>1</sup> Madras made a small beginning and had 22 Societies for the Consolidation of Holdings in 1939-40; but the attempt failed and the experiment was abandoned.

Permissive legislation has been tried in India and found wanting. Baroda introduced such legislation in 1920 but the law has remained a dead letter on the statute book. Some useful work has, however, been done by Consolidation Societies (of which there were 79 in 1938-9).

The experiment of consolidating holdings in the Central Provinces deserves notice. In that province, in addition to co-operative consolidation of holdings as in the Punjab, legislation for compulsory consolidation, the Consolidation of Holdings Act, was passed in 1928. The Act, which was to be applied to begin with in the Chhattisgarh Division only, gives power to not less than half the permanent right-holders, holding not less than two-thirds of the occupied area in a village, to combine in a scheme of consolidation, which when confirmed becomes binding on all the permanent right-holders in the village and on their successors. Since the passing of the Act operations have been completed in 2,436 villages in the Chhattisgarh Division and more than 500,000 acres of land parcelled out into thousands of small holdings have been consolidated at a cost of about four annas an acre. The C. P. Government have claimed a number of benefits for consolidation, such as economy of time and labour, introduction of improved varieties of crops and implements, fewer disputes on account of encroachment, increase in the gross produce, and regaining of much cultivable land following realignment of field bunds. It is also claimed that the realization of the good effects of consolidation has supplied a healthy, though voluntary, corrective to minute fragmentation subsequent to consolidation. A similar Act, as pointed out above,

Punjab' by K. M. Bashir Ahmad Khan, *Proceedings of the First Conference of the Indian Society of Agricultural Economics* (1940), pp. 38-44.

<sup>1</sup> *Report of the Registrar on the working of Co-operative Societies in the United Provinces* (1939-40), par. 44, and article by B. Mukherji in the *Indian Co-operative Review* (October-December 1939), pp. 519-29.

was passed for the Punjab in November 1936, and for the United Provinces in 1939.<sup>1</sup>

In the Punjab canal colonies, subdivision has been checked by restrictions on alienation and, in the case of certain grants, by the limitation of succession to a single heir. This has not, however, served to prevent *subdivision of cultivation*.

In Baroda State, apart from voluntary action through the Co-operative Societies, fragmentation is sought to be checked by other methods such as the Prevention of Fragmentation of Agricultural Holdings Act (1933), which gives neighbours and co-parceners the right of purchase of the adjoining lands, and by the action taken by Revenue Officers under the Land Revenue Code and by Civil Courts to enforce the provisions of the Partition of Property Act, which prevents partition of large holdings below prescribed limits. However, the progress made so far has been very slow. The Egyptian custom has been suggested for Muslims, whereby, although land is normally divided among the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number, or may be handed to trustees to manage for all. Joint farming of the inheritance without partition has been advocated for Hindus.

Mere refusal on the part of the Government to recognize uneconomic holdings is not enough as is seen by the experience of Bombay. The framers of the Joint Report, on which the Bombay ryotwari system is based, apprehended the evil of subdivision and were responsible for the inclusion in the Land Revenue Code of Section 98, according to which no survey number was to be of less extent than certain minima fixed from time to time for several classes of land. But this provision was ineffective in preventing the partition of land beyond the minima prescribed and the holding of it as separate plots. The law courts recognized such divisions and therefore Section 98 had to be repealed, and at present the Record of Rights recognizes the minutest subdivision.

§9. The Bombay Small Holdings Bill of 1927.—In October 1927 the Small Holdings Bill was introduced in the Bombay Legislative Council by the Hon. Sir Chunilal Mehta. The first part of the bill proposed the creation of machinery for laying down, according to local conditions, a standard unit, being the minimum extent that can be cultivated profitably as a separate plot. All existing plots below this standard were to be declared fragments. The bill aimed at stopping further subdivision of old fragments and creation of new ones, and promoting consolidation of holdings. The second part aimed at consolidating existing fragments for more profitable cultivation.

The bill involved a certain amount of compulsion. But in the words

<sup>1</sup>For an interesting review of the inquiry made by the Reserve Bank of India regarding the problem of consolidation of holdings in the several provinces in India, see paper on 'Consolidation of Agricultural Holdings' by K. G. Ambegaokar, I.C.S., read at the First Conference of the Indian Society of Agricultural Economics (1940). *Proceedings*, pp. 25-35.



of Stanley Jevons 'it is a peculiar and most important sociological fact that the laws and customs regulating ownership and use of land have a stronger tendency to persist than any other characteristic of society and therefore are difficult to alter by any other extraneous action than the *force majeure* of the law'.<sup>1</sup>

Another criticism was that the bill contravened the law of inheritance and the principles on which Indian family life is based. It may be pointed out, however, that the bill tried 'to alter the method of partition, rather than the law on which partition is based'. In any case the law is after all man-made and if it is seen to be mischievous in its tendency, the only sensible thing to do is to alter it.

The criticism, however, which was most frequently heard was that the bill would involve extensive expropriation and the creation of a large landless proletariat. This was based on the assumption that the standard holding would be fixed at a figure very much higher than the present average holding of a cultivator. The bill, however, contemplated the creation of 'profitable holdings' and not of 'economic holdings'. The standard unit was defined as the minimum necessary for profitable cultivation and not for an economic holding. The profitable holding contemplated would be very much lower than, for example, the economic holding as we have defined it.

Assuming that the standard unit had been fixed at a very moderate figure, many of those who would have had to part with land under the new law by way of lease or sale were likely to be people whose holdings were so small that they could not possibly live by them alone and who therefore were not whole-time agriculturists. The little fields such people possessed were a source of loss in so far as they prevented proper attention being devoted to the occupation which was their owners' principal source of livelihood. The holders, in these circumstances, would be better off if they sublet, and while enjoying some profit from the land they would still own, they would not waste time and incur loss by cultivating it in person.<sup>2</sup>

The critics of the bill also lost sight of the probability that it would act as a deterrent to reckless subdivision, and thus the question of expropriation would not arise in many cases.

The bill was referred to a select committee which reported in May 1928, introducing certain minor amendments to make it more acceptable. But, owing to determined opposition in the Council and outside, it had to be postponed indefinitely.

The Agricultural Commission utter the warning that while an element of compulsion may be inevitable, compulsion should not be regarded as dispensing with the need for the most scrupulous attention to the wishes of the people. It should be reserved till the latest possible stage of

<sup>1</sup> Quoted by Sir Chunilal Mehta, Bombay Legislative Council debates, October 1927.

<sup>2</sup> F. G. H. Anderson's pamphlet on the Bombay Small Holdings Bill.

a proposed scheme for consolidation and might be applied to secure for the majority the advantages which an obstinate minority might otherwise withhold. The state should undertake propaganda work, and difficulties should not be allowed to become an excuse for inactivity. State action in favour of consolidation should be taken in a gradual manner where it is introduced under a permissive Act. Special areas should be selected for notification under a permissive Act and full inquiry should be made into the opinions of the right-holders before any measure of compulsion is introduced.<sup>1</sup>

The creation of economic units of cultivation is an urgent reform of the most fundamental character. Failing it, whatever else has been attempted so far to relieve the poverty of the masses has invariably turned to dust and ashes. The attitude of the Royal Agricultural Commission as indicated above, and, much more, the attitude of the different provincial governments on this important question, has been much too vacillating and fainthearted.<sup>2</sup> It must be remembered that salvation can come only through a radical reorganization of our village economy and the problem needs to be tackled with boldness and vision. The experience of the recent war and the post-war period has proved, if proof was needed, that the Indian masses can take a great deal of regimentation and regulation. There is, therefore, no substantial ground for supposing that, in spite of some initial resistance based on ignorance and unreasoning fear, they will not acquiesce and eventually welcome reforms which constitute the indispensable foundation of solid and enduring economic welfare. In this connexion mention may be made of a recent book, *Poverty and Social Change*,<sup>3</sup> in which the author advocates the introduction of a system under which, while the entire village land would be taken over for joint management and cultivation, all existing rights in the land would be adequately allowed for and the principle of ownership and inheritance would be retained and respected. Mr Tarlok Singh claims for his plan that it is democratically conceived and points the way to peaceful change and as such is much to be preferred to the Russian plan of full and immediate collectivism involving liquidation of all rights in the soil and a complete break with the past. The author believes that with its agricultural economy reorganized on these lines, the village could be made to function as a major base in a modernized industrial structure, that a fruitful integration between rural and industrial economy could be

<sup>1</sup> *Agricultural Commission Report*, par. 127.

<sup>2</sup> The Famine Inquiry Commission also shows the same kind of vacillation. While declaring itself against interference with the laws of inheritance, it considers that 'some limitation on the existing rights of unrestricted transfer is necessary and desirable in order to prevent increase in fragmentation'. One member, however, (Sir Manilal Nanavati) had the courage of his convictions and was not afraid of recommending more drastic measures such as the creation of medium-sized impartible holdings. (*Final Report*, pp. 259-65).

<sup>3</sup> By Tarlok Singh, 1945.

brought about, and that the rural population would be enabled to participate actively in the process of industrialization from which it would derive direct and substantial benefit. It is admitted that the effective organization of agriculture as visualized in this scheme of joint village management, will throw out of employment a large portion of the village population (estimated by the author at  $15\frac{1}{2}$  millions) but, it is suggested, simultaneous planned expansion of industries would comfortably absorb this surplus population disengaged from agriculture. Although Mr Tarlok Singh states that the central ideas of his scheme 'took shape gradually over a period of six or seven years largely as a result of personal experience as a district official in the Punjab' and that almost every one of his ideas has been tested in discussion with peasants, many of the practical suggestions being made by the villagers themselves, it is certain that any attempts to put such a scheme into actual operation will meet considerable opposition. But unless radical remedies like these are applied with courage and resolution Indian agriculture will ever remain in a depressed condition and the problem of rural poverty will continue to defy solution.

#### PERMANENT IMPROVEMENTS

§10. Absence of permanent improvements and its consequences.—One of the most striking contrasts between Western and Indian farming is that in India there is an almost entire absence of permanent improvements on the land. Speaking about conditions in the Bombay Deccan, which hold good, more or less, for other parts of India as well, Keatinge observes: 'In the western portion some careful and laborious terracing has been done on the hillsides by the smaller owners. Here and there a favoured tract will be supplied with irrigation wells, and some farm buildings may be seen in the fields; but over the greater portion the landscape owes nothing to the hand of man—the fields lie unwatered, unfenced and unembanked, without shelter for man or beast.'<sup>1</sup> The absence of proper fencing puts the crop at the mercy of wild boars, stray cattle and poachers, not to speak of the numerous boundary disputes to which it gives rise and the labour it involves in connexion with herding cattle and watching crops. The freely blowing winds cause not a little damage to crops like cotton in the absence of wind-breaks. Although efforts, on an individual as well as a co-operative basis, to provide proper fencing have been made, much work yet remains to be done in this connexion. Field embankments are further conspicuous by their absence. The consequence is soil erosion and scouring of the land, leading to much preventible loss to the agriculturist. The soil, again, is very rarely graded and levelled properly so as to secure uniform absorption of water. Nor is there any satisfactory system of drainage. This leads to water-logging, and if at all an outlet for the excess of water is provided, it is allowed to run over

<sup>1</sup> op. cit., p. 107.

other peoples' land and damage it. In this manner, for instance, 'thousands of acres of valuable land on the left of the Jumna have been damaged by the formation of a network of ravines; and villages which were at one time surrounded by fertile fields now lie in a network of useless gullies'.<sup>1</sup> A proper control of surface drainage will cure all these evils, increase the yield of crops and by raising the spring level maintain the wells in action throughout the year.<sup>2</sup>

The provision of field embankments on the required scale as well as efficient fencing arrangements are, normally speaking, beyond the capacity of the individual cultivator, and the problem requires resort to joint schemes of land improvement for its solution. It is also essential that the Government should lend a helping hand by a freer grant of takkavi loans and by making available technical guidance through the appointment of special trained assistants to help such activity. Some of the Provincial Governments have recently made a fresh departure in appointing special embankment officers. The absence of farm buildings is another serious defect because it makes supervision difficult and entails an unnecessary waste of time and labour for both men and cattle. Cattle cannot be properly housed and the system of housing them along with men in the dwellings on the village site is highly unsatisfactory. The loss of manure in the process of carrying it from the village site to the fields is immense. There are, however, difficulties in connexion with the provision of suitable farm buildings which it will take time to surmount. One difficulty is that living in a farm-house on his holding would deprive the cultivator of the protection and security which he enjoys at present by living along with other cultivators on the village site. Secondly, attachment to the ancestral village dwelling comes in the way of the villager transplanting himself to a new house on the farm; thirdly, the expense of the change of residence would be a consideration; fourthly, the average holding is normally so scattered that the cultivator has not one but several fractional farms; and lastly, whereas by living on the village site the cultivator can take advantage of the public wells for obtaining water for drinking purposes, he would have to dig a private well of his own if he shifted to a farm house on his holdings. All these difficulties, however, must be got over, having regard to the great benefit to be derived from each cultivator staying on his holding.

#### IRRIGATION

§11. Necessity and importance.<sup>3</sup>—There are many reasons why our agriculture cannot afford to depend exclusively on rainfall and why it is necessary to provide the agriculturist with suitable irrigation facilities. There are many parts like Sind, Rajputana and the south-west Punjab

<sup>1</sup> See Dr Clouston's Memorandum, *Agricultural Commission Report*, Minutes of Evidence, vol. I, p. 12.

<sup>2</sup> See Howard, *Crop-Production in India*, p. 14.

<sup>3</sup> See *Triennial Review of Irrigation, 1927-30*; and also D. G. Harris, *Irrigation in India*, pp. 1-4.

which are practically rainless, so that cultivation is impossible except by artificial irrigation. Secondly, where the rainfall is not so very deficient, it is precarious and ill-distributed, as in the uplands of the Deccan which are exposed to chronic drought. Thirdly, some crops like rice and sugar-cane require a regular and sufficient water supply, which is not provided by the rainfall except in the most favoured regions. Fourthly, the intensive cultivation of land under the pressure of an increasing population has made second or winter crops necessary, and these require artificial irrigation in the absence of the winter rains. Lastly, there is the general consideration that nearly 80 per cent of the population are dependent upon agriculture, and their well-being must necessarily be affected by the adequacy or otherwise of such an important requisite as irrigation. Irrigation has been practised in India from time immemorial, especially in the form of wells and tanks, and the true British contribution to the irrigation system consists in the large irrigation works constructed for the purpose of utilizing the surplus water of large rivers.

The advantages of irrigation are numerous, the principal ones being an increase in the yield of crops, the successful introduction of a stable agriculture in arid and precarious tracts, protection from and insurance against famines and scarcity, larger railway profits in agricultural provinces like the Punjab and direct financial gain to the state.

§12. *Classification of irrigation works.*—*I. General classification.*—There are three main kinds of irrigation works in India : (i) wells, (ii) tanks, and (iii) canals. The canals are again of three types, namely, (a) inundation canals, (b) perennial canals, and (c) storage works.<sup>1</sup>

(i) *Wells.*—Well-irrigation is, and will always be, a vital factor in Indian irrigation, about 25 per cent of the irrigated area being watered by wells. There are about two and a half million wells in various parts of the country, irrigating about thirteen and a half million acres of land (including Indian States) and representing a capital outlay of about Rs. 100 crores. This form of irrigation possesses a high degree of utility and is more efficient than canal irrigation. Wells are mostly private works, though their construction is encouraged by the Government, who advance takkavi loans for the purpose and exempt the improved land from any extra assessment. The utility of wells has been considerably increased by subartesian bores and the installation of small power-pumps of a standardized pattern. These improvements are especially promoted by the engineering section of the Agricultural Department. There is plenty of scope in all the provinces for the extension of well-irrigation. Small co-operative societies for sinking and working wells would be valuable agencies where the individual holdings are very small. The Agricultural Commission recommended Government assistance in the construction of wells by the provision of technical advice, grant of takkavi loans and by

<sup>1</sup> Other systems of irrigation in use in India are lift irrigation from rivers and temporary dams for holding up flood-water. See *India in 1930-1*, p. 229.

placing boring equipment and skilled labour at the disposal of the landholder, on payment of a moderate fee.<sup>1</sup> The Famine Inquiry Commission<sup>2</sup> suggested that Government should collect and publish full information regarding subsoil water supplies and also that a special staff should be appointed charged with the duty of advising and assisting the villager in the sinking of wells.

(ii) *Tanks*.—Tanks have been a characteristic feature of Indian agricultural economy since very early times. They are, however, practically unknown in the Punjab and Sind. They are most highly developed in Madras, where there are over 35,000 petty irrigation works serving between 2.5 million and 3 million acres of land. Many old village tanks have, however, been silted up and are out of repair. A more vigorous effort on the part of both the Government and people is necessary to make the most of this ancient form of irrigation, especially in tracts where canal irrigation is impossible or unsuitable. It is also necessary strictly to enforce the legislative measures passed for the purpose of ensuring the proper maintenance of private irrigation works.

(iii) *Canals*.—This is now the most important form of irrigation in India and the one specially encouraged by the Government. A distinction may be drawn between canals dependent throughout the year upon the natural supply of water from the rivers on which they draw and those provided with artificial storage. The first type has been developed mainly in the regions traversed by the Himalayan rivers which flow throughout the year, the snow on the mountains serving as an inexhaustible reservoir during the dry months of the year. The same is the case in Madras to some extent, where the cold weather rains are heavier than in Bombay. The second type of canal has been adopted for the Madras province, the Deccan, the Central Provinces and Bundelkhand. The rivers in peninsular India, while flowing in torrents in the monsoon, shrivel up during the dry months of the year and therefore artificial storage is a necessity.

The first type of canal may again be subdivided into two classes, (a) the inundation and (b) the perennial canals.

(a) The inundation canals are drawn directly from the river without the use of any barrage. They do not obtain water until the river is flooded and reaches a certain level, the supply of water in the canal fluctuating with the natural flood level in the river. The lands in Sind and the Punjab are irrigated by such canals drawn from the Indus and the Sutlej respectively. In Sind, most of the canals are inundation canals. Being dependent on the natural flood level they receive a scanty supply when the level is low, while with fairly high and prolonged floods they permit of widespread cultivation. Irrigation is thus confined to the period from June to September, and during the latter portion of the year no cultivation is possible without the use of wells. The Sukkur Barrage in Sind,

<sup>1</sup> *Agricultural Commission Report*, pars. 274, 280.

<sup>2</sup> *Final Report*, p. 392.

which was opened in January 1932, is the greatest work of its kind in the world. It largely remedies the above-mentioned defect by constructing a barrage across the Indus, by means of which it is now possible to maintain the water in the canals above it at a sufficiently high level to provide flow irrigation all the year round. Similar steps are being taken in the Punjab, the main reason for the delay in undertaking such works being their heavy cost.

(b) *Perennial canals* are, as indicated above, constructed by putting some form of barrage across a river which flows throughout the year and diverting its water by means of a canal to the country to be irrigated. They are thus independent of the natural level of water in the river. Within this class fall the great perennial systems of the United Provinces and the Punjab. Some of the inundation canals in Sind and the Punjab are being transformed into perennial canals.

*Storage works* canals are constructed by building a dam across a valley to store the rain-water during the monsoon. The water so held is distributed to the neighbouring lands by means of the canals drawn from the storage. The expedient of storing the rain-water during the monsoon has been practised in India from very old times. Such works have been constructed in the Deccan, the Central Provinces and Bundelkhand.

*II. Classification of Government irrigation works.*—For the purpose of indicating the source from which the funds for the construction of Government irrigation works are provided they were classified until 1921 as follows: (i) productive, (ii) protective, and (iii) minor.

(i) *Productive works.*—These were expected to yield within ten years of their completion a net revenue sufficient to cover the annual interest charges on the capital investment. These works are found mostly in northern India and Madras. The capital outlay at the end of 1938–9 was Rs. 114 crores, and the net revenue was Rs. 8.67 crores, giving a return of 7.61 per cent. The largest increase in the area irrigated by Government irrigation works has been in the class of productive works, which irrigated an area of 4.5 million acres in 1878–9, as compared with 23,505, 657 acres in 1929–30. In the year 1938–9 the area increased to 24,709,120 acres.

(ii) *Protective works.*—These were not expected to be directly remunerative but rather intended to ensure protection against famines in precarious tracts like the Deccan. Such works diminish the necessity for periodical expenditure on the relief of the population in times of famine. The cost of these works is a charge on the current revenues of the Government and is generally met from the annual grants set aside for famine relief and insurance. Though not directly remunerative and in fact often resulting in loss, protective irrigation works may be economical in the long run as they ensure the economic stability of precarious tracts. In the year 1938–9 the area irrigated amounted to 2,884,259 acres and the capital outlay at the end of the year was Rs. 38.79 crores.

(iii) *Minor irrigation works.*—This was a miscellaneous class consist-

supplied with water from Government irrigation works was Rs. 109.35 crores. The total capital outlay on productive works at the end of the year 1941-2 amounted to Rs. 103 crores as against Rs. 42.2 crores in 1900-1. The net revenue was Rs. 10.66 crores, giving a return on capital of over 10 per cent. This is a satisfactory result, as Rs. 38.79 crores of the total have been spent on unproductive works, most of which return less than 1 per cent. The return from individual irrigation works shows a large variation. Some of the Deccan irrigation works hardly yield 1 to 2 per cent while productive works in the Punjab yield handsome dividends (8.44 per cent in 1941-2) on the capital outlay, 8.47 in Bombay, in Madras 2.67, and in the United Provinces 7.44 per cent.<sup>1</sup> In considering these figures it must be remembered that the capital invested includes considerable expenditure upon several works which are either only recently completed or still under construction and contribute little or nothing in the way of revenue. The charges for water are levied in different ways in the various provinces. For instance, in Sind the ordinary land revenue assessment includes also the charge for water, nine-tenths of this assessment being regarded as due to the canals. In others, as in parts of Madras and Bombay, different rates of land revenue are assessed according to whether the land is irrigated or not, and the assessment upon irrigated land includes also the charge for water. These methods may, however, be regarded as exceptional. Over the greater part of India water is paid for separately, the area actually irrigated is measured and a rate is charged per acre according to the crop grown. The rates charged vary considerably with the crop grown and are different in each province and often on the several canals in the same province. Thus in the Punjab they vary from Rs. 6 to Rs. 12.4 per acre for sugar-cane, from Rs. 4.4 to Rs. 7.12 per acre for rice, from Rs. 3.8 to Rs. 5.8 per acre for wheat, from Rs. 4.8 to Rs. 6.8 per acre for cotton and from Rs. 2.4 to Rs. 4.8 per acre for millets and pulses.<sup>2</sup>

Province	Percentage of area irrigated to total area sown	Province	Percentage of area irrigated to total area sown
Bengal	0.79	N.-W. F. Province	19.08
Bihar	4.0	Orissa	8.43
Bombay	1.91	Punjab	39.56
Central Provinces and Berar	3.07	Sind	88.0
Madras	21.18	United Provinces	16.84
		Total average for British India	16.28

The importance of the part which irrigation plays in the rural economy of the different provinces varies greatly from province to province as will

<sup>1</sup> See *India in 1933-4*, p. 99; *Statistical Abstract for British India* (1938-9), Table No. 192, and *Indian Year Book* (1947-8), p. 334.

<sup>2</sup> *Indian Year Book* (1945-6), p. 326.



be seen from the table (p. 196) relating to the year 1938-9. It will be seen that the more advanced provinces in this respect are Sind, the Punjab, the North-West Frontier Province, Madras, the United Provinces and Orissa. Bombay and the Central Provinces, both of which are in need of irrigation facilities, are poorly developed and we must speed up future progress to ensure certainty of harvests in these regions of precarious rainfall.<sup>1</sup>

§14. The irrigation policy of the Government.—The British Government inherited from its predecessors some of the present irrigation works, such as a few inundation canals in upper India, storage works, and tanks—especially in the Madras Presidency. In the early British period, however, these works were neglected, with the result that some of them were ruined. But by the middle of the last century, there was a change in the policy of the Government, who began to repair and revive the old works. Progress was, however, retarded by the unsuccessful experiment of entrusting the work to private guaranteed companies. The Government subsequently adopted a new policy and undertook the construction and maintenance of productive irrigation works themselves, raising necessary loans for the purpose. Under this policy, some of the greatest works were constructed in the United Provinces and the Punjab. A brief description of the canal colonies in the Punjab is given at the end of this chapter.

The progress of irrigation as a whole was, however, very slow. In the meanwhile, a further important change occurred in the policy of the Government, who now clearly recognized their duty to construct protective irrigation works in famine tracts, and steps were accordingly taken in that direction in the Deccan and elsewhere.<sup>2</sup> But on account of their heavy cost and the irregular demand for water on the part of cultivators, together with the occasional failure of the monsoon, these works did not pay their way, with the result that the Government began to concentrate on the more remunerative works connected with the rivers in the Punjab. The famines that visited the country towards the end of the last century and affected the Deccan with particular severity led to the appointment of the Irrigation Commission of 1901 by Lord Curzon's Government. That body held that railway construction, which was recommended as a measure of famine protection side by side with protective irrigation works by the Famine Commission of 1880, had played its part in the policy of famine insurance, and it was now important to develop the supply of food. They maintained that the field for the construction of remunerative works was limited to the Punjab, Sind and parts of Madras, all of which are not so

<sup>1</sup> *Indian Year Book* (1947-8), p. 335.

<sup>2</sup> After the famine of 1877-8, it was decided to set apart Rs. 150 lakhs every year as the Famine Relief and Insurance Fund. A portion of this grant was spent upon the construction of protective works. In 1910 the Secretary of State sanctioned the provision of an annual subsidy of Rs. 25 lakhs for this purpose in addition to Rs. 75 lakhs from the Famine Relief Fund. The full allotment of Rs. 100 lakhs was, however, never worked up to, even before the war of 1914-18 made retrenchment necessary.

vulnerable to famine. They recommended, however, that these works should be increased as fast as possible, because they would be profitable to the state and would increase the total food supply of the country. For the protection of famine areas, they recommended the construction of protective irrigation works which, though not directly paying, would dispense with the large expenditure on famine relief which would otherwise be necessary. The subsequent irrigation policy of the Government has been based upon these recommendations and presents a contrast to the earlier policy of concentration on railways, to the detriment of irrigation, which called forth the adverse criticism of men like the late R. C. Dutt. A large number of new works were undertaken and the capital outlay has since been more than doubled on productive and protective irrigation works, while the area irrigated by them has increased by over 70 per cent.

Irrigation became a provincial subject under the Reforms of 1919, and greater financial powers and larger initiative were conferred on the Provincial Governments. The sanction of the Government of India and of the Secretary of State was required only in the case of works estimated to cost over Rs. 50 lakhs. Moreover, the use of loan funds was no longer restricted to productive works and money became available from the Provincial Famine Insurance Grant when it was not required for actual famine relief.

The Agricultural Commission strongly commended the Bombay Government's step in the appointment of a special inquiry officer in 1925 to investigate the natural resources for the protection of the lands from famine and they advised other provinces to follow suit. Co-operative irrigation societies should be formed and assisted to carry out and maintain such works. The construction, preservation and improvement of minor irrigation works have not hitherto received the attention they deserve.<sup>1</sup> With the advent of popular Ministries in the provinces in 1937 new activity as regards these irrigation works was in evidence.

Since 1922, remarkable activity in regard to irrigation works has been displayed and several important works have been completed at a cost of over Rs. 500 million, the area to be brought under irrigation or under improved watering being about 12 million acres, which means a total area thrice as large as in the year 1902-3. The new major works of exceptional importance were the Sutlej Valley Works in the Punjab (which reached completion by the end of 1932-3 and entailed a cost of Rs. 33.31 crores till the end of the year) estimated to irrigate over 5 million acres; the Sukkur (Lloyd) Barrage and Canals in Sind (which were opened early in 1932 and entailed a cost of over Rs. 24 crores) estimated to irrigate about  $5\frac{1}{2}$  million acres; and the Cauvery Reservoir and Mettur Project in Madras (which was inaugurated in August 1934) estimated to cost about Rs. 7.37 crores and to command a new area of over 3 million acres and add 150,000 tons of rice to the food supply of the country. The last

<sup>1</sup> *Agricultural Commission Report*, par. 279.

opening years of the present century, and in view of the intensity of the famines at the close of the last century, on the other. Dutt argued that under the influence of capitalists, speculators and manufacturers in England, pressure was brought to bear upon the Government unduly to hasten railway construction under the guarantee system. Military considerations, and also a growing sense of responsibility for extending relief to the famine-stricken tracts, influenced the policy of the Government. It has already been pointed out that protective irrigation works were not paying and therefore progressed very slowly. Furthermore, the critics of Government policy alleged that the undue hastening of railway construction accelerated the decline of indigenous industries and led to the congestion in agriculture, thus partially defeating the object of the protective railways, namely to reduce the severity of famines.

The controversy has since considerably abated for various reasons. Now that the railways have become normally a paying concern and do not involve a drain on the pocket of the taxpayer, his opposition to their extension has died out. Moreover, as a result of the recommendations of the Irrigation Commission of 1901, the Government's irrigation policy has become progressively more liberal. In fact, some new works not contemplated by that body have been undertaken.

Turning to the merits of the controversy itself, we may say that while the exact proportion between railways and irrigation may be a matter of dispute, they are in no way antagonistic, but supplementary and complementary to each other. It is clear that while an additional food supply can be secured by irrigation, its proper distribution in the country can be effected mainly by the railways. It is, however, true that towards the close of the last century the Government's irrigation policy was not as progressive as it is today, and even today there exists considerable scope for the extension of irrigation, if considerations of immediate profit and loss are allowed less weight when deciding to undertake protective irrigation works. This applies particularly to Bombay where, excluding Sind, less than four per cent of the total cropped area is irrigated and the rest is at the mercy of a freakish monsoon. So far as the whole country is concerned we seem to be on the horns of a dilemma. In those tracts where irrigation is highly remunerative, as in northern India, the liability to famine and unstable agriculture is not great, whereas in peninsular India, especially in the Bombay province where the monsoon is very precarious, irrigation is not directly remunerative. It must, however, be remembered that strictly commercial considerations of profit and loss are out of place here and the question must be looked at from a broader point of view. 'In estimating the financial soundness of an irrigation scheme, account should be taken not only of the revenue directly attributable to the work in question, but also of the additional revenue indirectly accruing to Government, as a result of the increase in the wealth of the population.'<sup>1</sup>

<sup>1</sup> F. I. C. F. R., p. 391. See Gadgil: *Economic Effects of Irrigation* (Gokhale Institute of

§16. Waterlogging and salt effervescence.—Waterlogging and salt effervescence are dangers particularly associated with canal irrigation, and these dangers have not always been effectively guarded against in the past, so that soils have sometimes deteriorated as a result of irrigation. For example, in the Punjab and Bombay a good deal of land has been thrown out of cultivation by the rise of subsoil water, and the appearance of salts driven to the surface of the soil.<sup>1</sup>

The enormous waste of water by the cultivator in canal-irrigated tracts, which is one of the causes which lead to waterlogging and salt effervescence, is universally admitted. But as the Agricultural Commission pointed out, this cannot be wholly attributed to the fact that the cultivator has no incentive to economize water which the Government provides for him. No small percentage of wastage is due to the uncertainty of water supply. To ensure economy of water, the Agricultural Commission recommended that further investigation and experiment, which were started on the recommendation of the Irrigation Commission, should be undertaken both in the Punjab and elsewhere before a final decision against the sale of water by volume is reached.<sup>2</sup>

Lack of proper drainage in the canal tracts has not only been a handicap from the agricultural point of view, but has converted originally healthy tracts into malarious ones. Canal irrigation therefore is not only the work of the engineer, but also of the soil physicist, the agricultural chemist, and the medical and sanitary expert as well. The Agricultural Commission recommended that a careful drainage survey should in future form an integral part of all new irrigation projects and that drainage maps should be prepared.

§17. Canal colonies in the Punjab.<sup>3</sup>—We may conclude our discussion of irrigation in India by saying a few words regarding the canal colonies in the Punjab which have played a striking part in our irrigational history. In the Punjab the irrigation problems which have had to be faced by the Government have been different from those in other provinces. Before the advent of irrigation in the eighties of last century, the whole vast stretch of the country now irrigated by the Lower Chenab, Jhelum and Bari Doab canals was a desert, owing to meagre and precarious rainfall. Hence 'it was necessary simultaneously with the introduction of irrigation to transport bodily whole communities into the new areas thus opened up' (Harris). Before the colonists arrived, the alignment of the water-course was made, the land in each colony tract was demarcated into large and small similar squares and rectangles, the village boundaries were settled, roads were marked out, and land was set aside in the vicinity for grazing and other communal purposes. On arrival the colonists had to

Politics and Economics, Publication No. 17) for an instructive object-lesson in assessing the total direct and indirect benefits from irrigation projects.

<sup>1</sup> Brij Narain, *Indian Economic Life*, p. 383, and Howard, *op. cit.*, p. 45.

<sup>2</sup> *Agricultural Commission Report*, par. 277.

<sup>3</sup> See Harris, *op. cit.*, pp. 48-59; and Darling, *Punjab Peasant*, ch. vii.

build their houses and commence breaking up the land allotted to them. These colony villages were thus systematically planned and possess sanitary advantages superior to those of the ordinary villages. The colonists were judiciously chosen by the Revenue Officers from the specially congested districts of the provinces and from among the classes of hereditary landlords or occupancy tenants for holding the so-called peasant grants under which the bulk of the land is allotted. Groups of this kind connected by common ties were dispatched to the colonies as units to form separate village communities. The terms of grant vary in different colonies. The average area allotted to each individual is generally from one and a half to two squares, or about 40 to 50 acres. In most of the earlier colonies inalienable occupancy rights in the holdings were granted at the end of the term of probation, either free of charge or on payment of a nominal sum. But under a subsequent revised procedure 'occupancy rights are granted after a first term of years and after a further term tenants are given the option of purchasing alienable proprietary rights at a privileged price payable in easy instalments'. Larger grants are made to hereditary landholders of substance and status and to men of means wishing to experiment in improved methods of cultivation and irrigation. Grants are also made in recognition of special civil or military services to the Government. The development of the colony proceeded apace, once the colonists were settled in their new villages, by means of improved communications, metalled roads and railways and by the rise of towns and markets. Thus what was once a treeless, waterless waste land has been converted by the beneficent hand of man into these flourishing canal colonies. Their backbone is the small peasant proprietor who holds nearly 80 per cent of the land. The financial results are striking. The Government earned a net profit of over 30 per cent upon the canals serving the three major colonies of Lyallpur, Shahpur and Montgomery, and 14.99 per cent upon its capital outlay of Rs. 34.53 crores on productive works by the end of 1938-9. The benefit to the cultivator has been even greater. In the same year, in spite of low prices, the value of the crops grown on canal-irrigated land throughout the province was Rs. 40.31 crores. As M. L. Darling briefly puts it, 'the colonies brought to the Punjab a period of prosperity without parallel in its past'.<sup>1</sup>

<sup>1</sup> *The Punjab Peasant in Prosperity and Debt*, p. 114.

## CHAPTER VIII

### *AGRICULTURE: LABOUR, EQUIPMENT AND ORGANIZATION*

§1. The human factor: its unsatisfactory nature.—Efficient agriculture depends on the qualities of the man behind the plough more than on anything else. In order therefore to understand the present position of Indian agriculture, we must make an attempt to assess the merits and the defects of the Indian cultivator. As things stand at present, he must be acknowledged to be inferior in point of intelligence, enterprise and capacity for labour to the European or American farmer. His inefficiency, however, is not innate or rooted in the nature of things and is capable of being remedied. He is bowed down with the heavy and weary weight of many burdens and handicaps, and the wonder is that he still continues to carry on the struggle for existence, and is not altogether extinct.<sup>1</sup>

The major cause of the backwardness of the Indian cultivator is in the heart-breaking conditions under which he works. This view is borne out by the fact that the Indian peasant is comparatively alert, tenacious and enterprising in those tracts where the rains are dependable or where irrigational facilities are available and he can confidently expect to reap the reward of his labour. Where, however, conditions in this respect are unfavourable, he is apt to be lazy, pessimistic, easy-going and miserably poor. Dr Voelcker, Consulting Chemist to the Royal Agricultural Society, who was sent out in 1889 to report on agricultural practices in India from the modern scientific point of view, bore admiring testimony to the careful husbandry 'combined with hard labour, perseverance and fertility of resource' of the Indian agriculturist. Opinions of this kind bearing the imprimatur of high scientific authority must be respected and should leave us in no doubt as to the excellence which Indian farming is capable of attaining under favourable conditions. But we must not allow such laudatory remarks, torn out of their context and mainly intended to correct extreme views in the opposite direction, to lull us into a false sense of security. If the average cultivator in India had been as efficient and go-ahead as the unwary may be led to imagine from encomiums such as that of Dr Voelcker, the rural problem in India would have been much simpler than it is. It is a matter of the most vital importance to recognize clearly the actual defects and shortcomings of the

<sup>1</sup> 'Although in view of India's diversity it is not safe to indulge in generalizations about the different types of cultivators in the different parts of the country, at the same time there is a family resemblance between these cultivator types. . . . There is the same plainness of life, the same wrestling with the uncertainties of climate (except in favoured areas), the same love of simple games, sports and songs, the same religious background, the same neighbourly helpfulness, and the same financial indebtedness.'—W. Burns, *Sons of the Soil*, p. vii.

cultivator, due to whatever causes, and seek remedies for them directly through education in the widest sense of the term, as well as indirectly through an improvement of external conditions. We must admit that, generally speaking, the Indian peasant is lacking in originality and initiative and is too much wedded to traditional methods and practices, many of which are wasteful and unscientific. Also, he is steeped up to the lips in superstitions and prejudices, which in their totality are a serious drag on his economic progress. The dead weight of his inertia, apathy and conservatism is an obstacle in the way of every reform proposed for alleviating his condition. By his insanitary habits of living, he draws upon himself much avoidable physical suffering, with its attendant evils of low vitality and incapacity for persistent and strenuous labour, and a sombre outlook on life. He is ignorant, improvident and reckless, a combination of qualities which make him an easy prey to anyone desirous of taking advantage of his weaknesses. He is too prone to waste his substance and energy in needless litigation and too fond of locking up his capital in jewellery and trinkets instead of devoting it to such forms of personal expenditure as would increase his efficiency, or employing it in more remunerative investment. He generally spends far beyond his means on marriages and other ceremonies and thus walks with open eyes into the money-lender's parlour, from which he is rarely able to get out. He shows an insufficient appreciation of the truth that God is wont to save only by human means, and a tendency to rely too much on Providence or some other external agency, and too little on personal endeavour for remedying every evil from which he may be suffering and for which he is generally inclined to blame Fate or Providence rather than himself.

Everyone acquainted with rural conditions in India will admit that all these are real evils, and a direct frontal attack must be made on them. 'Take care of his environment and the cultivator will take care of himself' is a good enough motto, but a better is: 'Improve at once both worker and environment, so that each may help the other.'

§2. A comprehensive scheme of rural education.—The only way of changing the psychology and the social and personal habits of the peasant is to educate him. It is obvious that so long as ignorance and illiteracy prevail in our villages and barely eight per cent of the population can read and write, all talk about rural progress is futile. The absence of widespread literacy and of a suitable system of rural education is largely responsible for many of the evils we deplore: illiteracy aggravates indebtedness, promotes improvidence and extravagance, impedes the progress of improved agriculture and, what is more serious than anything else, prevents that mass awakening without which no reform can be permanent. For the problem of rural uplift cannot be solved until the cultivator himself desires his own improvement and can think and act for himself. The present system of education needs to be remodelled so as to suit it to the needs of the rural masses, and in preparing textbooks and laying down curricula, the Education Department must absorb the result of the labours

of, and work in consultation with, other departments whose servants are brought into contact with the villagers in the course of their duties. The education imparted in the rural schools must be such as will promote interest in and love for agriculture and rural life in general, and should cease to deserve the criticism which is often made against it—that it creates a bias in the mind of the rural scholar against his ancestral occupation and makes him soft-handed and unfit for agricultural work. This defect was stressed by the inquiries into the educational system of India conducted by Messrs Abbott and Wood (1937) and later by the Zakir Husain Committee appointed by the Wardha Education Conference (1937), as also by the Committee on Vocational Training appointed by the Government of Bombay (1938). It is now generally agreed that the education of children in the primary schools should be based more upon the natural interests and activities of young children and less upon book learning.<sup>1</sup>

The Zakir Husain Committee accepted Mahatma Gandhi's basic idea 'that education, if sound in its principles, should be imparted through some craft or productive work which should provide the nucleus of all the other instruction provided in the school'.<sup>2</sup> 'The principle of educating children through purposeful activity leading on to productive work is peculiarly suitable to village conditions and requirements.'<sup>3</sup>

The present tendency of attaching a spurious value to mere literacy, which makes a person think that he is in quite a different class from his unlettered fellows, and fires him with the insensate ambition of driving a quill rather than a plough, must be destroyed by taking special pains to inculcate the dignity of labour by imparting education through vocational or manual training and also by making education universal and compulsory. The benefits of education should be extended to both sexes, and it should not be considered necessary to hold up female education till there is a sufficient number of women teachers. Spread of literacy among women is indispensable for the spread of *lasting* literacy among the young. Nature study of plant and animal life, school gardens and farms, textbooks dealing with rural subjects, manual training, education with special reference to local subsidiary industries, physical and boy-scout training and lessons in first-aid would be some of the items in a complete scheme of rural education.

A proper scheme of adult education is also necessary in order to increase the all-round efficiency of the farmer and in order that the present generation should be in a position to take advantage of modern developments in agriculture. Adult education is also important as tending to prevent the too frequent relapse into illiteracy of the young villager as soon as he leaves his school. It should also include women within its

<sup>1</sup> A. Abbott and S. H. Wood, *Report on General and Vocational Education*, par. 98.

<sup>2</sup> *Report of the Zakir Husain Committee*, Section I.

<sup>3</sup> *Report on Vocational Training in Primary and Secondary Schools* (Bombay), par. 24.



scope as it is most important to improve their ideas so that they should not act as clogs in the wheel of progress. Adult education must have a very prominent place in any programme looking forward to building up and organizing a strong and efficient democracy. As the Bombay Committee on Adult Education observed, 'adult education must have a recognized status in the general system of education and the State must be the driving force'. The Government should assist adult education wholeheartedly, especially by financial support to literacy programmes and recreational activities.

Special machinery is needed for carrying literacy and general enlightenment to grown-up people, and it should include such things as night schools, continuation classes, libraries and reading rooms, magic lantern and cinema shows, demonstration trains, etc. The cinema especially has great uses as an educative agency. So has the radio.<sup>1</sup> The cinema brings in new wants and fresh incentives to exertion, and as a vehicle for carrying enlightenment to the untutored mind of the villager it is far more effective than the mere written or spoken word. Much of adult education must depend on such agencies as these rather than on formal instruction in regular schools.

The first step in a programme of adult education as it affects the villager should be an endeavour to help him to overcome his dejection and apathy and to find an interest in life. It is, therefore, necessary to link up the adult education movement in the rural areas with a general programme of rural reconstruction.<sup>2</sup>

§3. *Physical inefficiency of the peasant: its causes and cure.*—Many of our villages are ravaged by 'major' diseases, such as malaria, plague, cholera, dysentery, tuberculosis, kala-azar, hookworm, and so-called 'minor' diseases such as skin complaints and leprosy. This is one of the major causes of the inefficiency of the peasant. Disease may reduce the economic power of a community by carrying off the strong and the able-bodied and decreasing the proportion of workers to non-workers. Secondly, it often debilitates those whom it attacks even when it does not kill them, thus causing not only shortage of labourers but also shortage of labour power. Thirdly, it often incapacitates the workers just when agricultural operations are in full swing; and lastly, it tends to make people lethargic, listless and fatalistic. A campaign of public health and hygiene must be opened on a large scale to wipe out disease, create an active and enlightened 'public health conscience' and overcome prejudices, some of which are all the more formidable because of their being bound up with religion.

Health publicity bureaux, baby weeks, Red Cross work, child welfare, maternity leagues and co-operative dispensaries have all a part to play in the service of village health and sanitation. Drainage of irrigated tracts

<sup>1</sup> Special broadcasts for village folk are now a regular feature of the programmes of several of the All-India Radio stations.

<sup>2</sup> *Report of the Adult Education Committee (Bombay), 1938, pp. 4-5.*

and marshy swamps, supply of pure drinking water and village housing are all necessary. Substantial progress in the campaign against malaria, 'our greatest morbidity scourge', can only be achieved by vigorous action by the people themselves assisted by the Government. A much wider distribution of quinine is necessary and the Central Government should make itself responsible in this important matter and address itself vigorously to the problem of cheapening quinine and increasing its supply by extending the cultivation of cinchona.

The absence of adequate medical facilities in village areas constitutes a serious difficulty. It is necessary that the claims of indigenous systems of medicine should be properly investigated and the use of such indigenous drugs as are found to be effective should be encouraged as substitutes for the more expensive allopathic drugs. A few years ago the Bombay Government started an interesting experiment for increasing medical facilities in rural areas by the establishment of the Village Aid Scheme, under which, in certain selected districts of the province, primary school teachers underwent a short course of medical training at the district civil hospital and then returned to their villages with medical chests. They treated simple cases, rendered first aid and sent the more serious cases to a neighbouring dispensary. More recently the Government have commenced subsidizing medical practitioners in rural areas.

Closely connected with rural sanitation is the problem of providing sanitary and decent dwellings in the villages. It must not be supposed that the housing problem exists in cities alone. For although there is more space in the villages, the houses themselves are generally flimsy structures of mud, with a thatched roof and a single door and hardly any windows, dark and infested with mosquitoes, rats and other vermin. Human beings and animals often share the same room, breathing each other's exhalations, an arrangement injurious both to man and beast. A supreme effort is needed to dismantle these village 'slums' and replace them by decent and clean dwellings. Rural co-operative housing societies, financed and otherwise helped by the Government, should be started. The state may not only grant loans directly but may also help by guaranteeing the interest and redemption of loans made by special financial institutions started for the purpose.

§4. Bhore Committee Report.—We may here give a summary of the Health Survey and Development Committee, 1943 (Bhore Committee).

The plan proposed by the Committee falls into two parts: (i) a comprehensive long-term programme and (ii) a short-term programme.

On the administrative side it is proposed to have (1) a Ministry of Health at the centre, with a Central Statutory Board of Health; (2) Ministries of Health in the provinces; and (3) local area health administrations.

The Central Statutory Board of Health, consisting of the central and provincial Ministers of Health, is calculated to minimize friction and promote mutual consultation. The centre, with its larger resources in money

and technical personnel, should help the provinces with grants-in-aid and technical assistance. There should be standing Councils of Experts at three levels, viz. at the centre, in the provinces and in the local areas, representing the medical, dental and nursing professions. There should be Health Boards in the provinces with composition and functions similar to those of the Central Health Board. The Ministries of Health, central and provincial, should lay down and enforce minimum standards of health administration and undertake responsibility for all health services within their respective jurisdictions. The Central Government should take all necessary steps to prevent inter-provincial spread of infections and also maintain proper standards regarding foodstuffs and drugs in inter-provincial commerce. There should be a Director-General of Health Services at the centre and a Director of Health Services in the provinces, as the principal technical adviser to the Ministry of Health. In the local areas, there should be a single health authority, viz. the District Health Board, instead of the present multiple authorities. All large municipalities, i.e. those with a population of 200,000 and over, should develop and maintain their own independent health organizations. Every municipality should be required statutorily to contribute to the District Health Board not less than 30 per cent of its income from all sources except government grants. Similarly every District Board or panchayat should contribute not less than  $12\frac{1}{2}$  per cent of its income from such sources.

(i) *Long-term Programme.* The populations of individual districts vary considerably from over five millions to a few hundreds of thousands or even less in some cases and therefore, in presenting the plan, an arbitrary figure of three millions for a district has been chosen. The district health organization will have as its smallest unit of administration the primary unit, which will normally serve an area with a population of about 10,000 to 20,000. From 15 to 25 of these primary units will together constitute a secondary unit, and about 3 to 5 secondary units will form the district health unit. At each of the headquarters of the district and of the secondary and primary units will be established a Health Centre as a focal point from which the different types of health activity will radiate into the territory covered by each type of unit. The District Health Centre will possess general and special hospitals with a total of about 2,500 beds and all the consultant and laboratory services required for the diagnosis and treatment of disease on up-to-date lines. Similarly the Secondary Health Centre will be provided with hospital accommodation of about 650 beds with equipment and other facilities on a generous scale. The Primary Health Centre will have a 75-bed hospital. The District Health Centre will exercise supervision and control over the district as a whole; the Secondary Health Centre, over its primary units, and the Primary Health Centre over the area included in the primary unit. The hospital accommodation contemplated above will give the proportion of 5.67 beds per 1,000 population as against the present proportion of 0.24 beds per 1,000 population. Eventually the district will consist of 150

primary units each with six doctors (half of whom will be female doctors), 26 nurses, 6 midwives and 18 others, such as social workers and sanitary inspectors. There will be 30 primary units attached to each secondary unit which will provide institutional facilities of a high order. There will be five secondary units attached to each District Health Centre. All this development is expected to take place within forty years.

(ii) *Short-term Programme.* The short-term proposals are intended to supplement and not supplant the existing health services. A province-wide organization for combined preventive and curative health-work is proposed. This will provide for each district, (a) a number of primary and secondary units, which are included in the district health unit and (b) special health services for mothers and children, school-children and industrial workers as well as for dealing with the more important diseases prevalent in India. There are also recommendations regarding impersonal health services relating to town and village planning, drainage and other matters regarding general sanitation. Specific proposals for the training of doctors, nurses and other categories of health personnel for medical research, etc., have also been made. The province-wide health organization will follow the outlines of the long-term plan but will be less elaborate. Each primary unit should cover, during the first ten years, a population of 40,000. The Primary Health Centre should have a dispensary with two beds for maternity and two for emergency cases. The Secondary Health Centre should start with a 200-bed hospital to be raised, by the tenth year, to 500 beds. The establishment of the District Health Centre may be postponed till after this period. In order to expand the existing meagre hospital facilities in rural areas, a 30-bed hospital should be established at the start to serve four primary units, their number to be doubled at the end of the first ten years, so that there will be one hospital to serve two primary units.

The district health organization should, from the start, be established in every district in a province. This organization should begin with five primary units and one secondary unit, and these should be gradually increased to 25 primary and 2 secondary units at the end of the first ten years.

(iii) *Professional Education.* In the first ten years the target should be 4,000 to 4,500 doctors trained annually, which is roughly double the present output. After graduation those who wish to enter public service should be assured of an income of Rs. 1,000 per year. An All-India Medical Institute should be established to provide a steady stream of teachers of the highest quality. The need for nurses is even greater than that for doctors. There are only about 7,000 registered nurses in the whole country at present, whereas the implementation of the short-term programme will require approximately 80,000 nurses. A stipend of Rs. 60 per month for pupil-nurses is recommended. A part of this amount may eventually be recovered from them in easy instalments.

§5. Need for closer contact between village and town.—The reform of the

villager consists essentially in replacing the various mistaken, stupefying and pauperizing ideas which hold him down at present, by new, daring and inspiring ones. Anything, therefore, that fosters the contact of the village with the outside world and brings it within the orbit of more progressive influences emanating from the town should be welcome. The villages are no longer landlocked and isolated as of old, but much still remains to be done in the way of cheap and easy transport by more and better roads and railways. We may also refer here to the post office as a civilizing agency. The part which the post office can play in the life of a people will obviously depend on the extent to which literacy prevails. The provision of postal facilities, perhaps, itself stimulates the desire for literacy and helps to sustain literacy once attained. The post office may also help in propaganda work by putting up interesting bulletins prepared specially for the instruction and amusement of the villager. Postal savings banks tend to promote thrift among the people, and, coupled with the cash certificates system, make investment of small rural savings possible. A minor advantage of the post office lies in its serving as an agency for the distribution of seeds and cheap quinine in villages. Wireless and broadcasting have immense possibilities and will increase rural amenities and bring about an undreamt-of change in the life of the village people.

§6. *Hired agricultural labour.*—The foregoing discussion of the personal factor in Indian agriculture has been primarily with reference to the cultivator who owns the land he cultivates. For the sake of completeness of treatment, it is now necessary to say a few words, first about hired labour, and secondly about the part which the landlord plays in the agricultural economy of India. As regards hired labour, the position must be pronounced far from satisfactory. Agricultural labourers who hire themselves out are partly landless labourers, a class which is at present small but which is tending to grow, and partly those who possess bits of land which, however, are so small that their owners are under the necessity of hiring themselves out for work on other people's land in order to make a living. Labour drawn from either of these classes is dear, inefficient and unreliable. The modern facilities for migration as well as the increasing demand for labour on the part of railways and public works, and of commerce and industry, often put the labourers in a strong position. Further, owing to the heavy mortality caused by epidemics like plague and influenza, there may be temporarily an appreciable decrease in the number of labourers. Lastly, there is also a certain tendency on the part of small peasant proprietors to retire from personal labour on their farms and rely on hired labour as soon as their financial position permits the indulgence of this luxury. All this has resulted in a rise in the wages for hired labour, instead of serving as a stimulus to greater exertion. The labourer chooses to work less and there is no perceptible increase in his standard of life, and, through a higher standard, in his efficiency. The labourer, in short, has the same weaknesses and shortcomings as characterize the cultivator

and he also may be expected to benefit by the measures devised for bringing about a general revival in the rural areas.

§7. The landlord and his place in the rural economy.—One of the greatest difficulties under which Indian agriculture labours is its comparative failure to attract the necessary brains, enterprise and capital. Modern amenities of life, such as education, sanitation and well-developed communications, have been largely monopolized by the towns, in spite of the fact that the money for the provision of these facilities has been drawn mostly from the rural side. The wider opportunities and greater attractions offered by the town have induced an exodus from the village to the urban areas of its best intelligence and enterprise, leaving a blank in the village which it is not easy to fill. Lastly, the educated people of the towns and the landlords have not hitherto cared much to study rural problems and to understand and meet rural needs. Their knowledge, resources and enterprise have not been made available for the promotion of village prosperity. The ignorance of the urban population in this country on agricultural matters is 'so colossal and so genuine as almost to deserve respect'.<sup>1</sup> The leadership of big landlords such as Bakewell, Bates, and 'Turnip Townshend', to whom English agriculture owed so much in the eighteenth century, has had no counterpart in India. One of the hopes entertained by those responsible for introducing permanent settlement in Bengal was that it would create a class of big landlords who would live on their estates and whose personal influence and material help would be of great benefit to the cultivators. This expectation, however, has unfortunately not been fulfilled. The landlords with very few exceptions have preferred to live in the big towns away from their properties, and interest themselves in their estates and tenants merely as sources of rents. The only function they perform is that of a distant suction pump for drawing rents from the tenants with such thoroughness as the tenancy laws permit. Absentee landlordism is the rule not only in Bengal but also in other parts of the country wherever there is a considerable landlord class. Speaking of the evils of absentee landlordism Carver says: 'Next to war, pestilence and famine, the worst thing that can happen to a rural community is absentee landlordism.'<sup>2</sup> The evil is particularly serious in those parts where the zamindari system prevails, though it is not altogether absent even in ryotwari areas. We may say that the landlords, as a class, are even more of a detached and outside agency so far as the development of land is concerned than the state. The state has at least charged itself with such important functions as provision of irrigation facilities, roads and railways, agricultural education, grant of takkavi loans, etc., whereas the landlord as a rule does

<sup>1</sup> Adapted from A. Collett's remark quoted by H. Calvert in *Wealth and Welfare of the Punjab*, Preface, p. i. The observation refers to English conditions but is not less true of India. See also Radhakamal Mukerjee, *Land Problems of India*, pp. 123 and 193-4.

<sup>2</sup> T. N. Carver, *Principles of Rural Economics*, p. 377.

nothing whatever for the improvement of the land. It is of the greatest importance to agricultural progress that it should secure the active interest of the landlord class; this would prevent rack-renting and establish personal relations between landlord and tenant to their mutual advantage, and it would ensure more rapid progress. The big landlords possess at least two requisites of progress, namely, capital and intelligence, and if they only develop a new sense of values and realize that there is not only greater profit, but also greater pleasure, in living in the country and helping forward the cause of rural renaissance than in idling away their time uselessly in the cities, we shall not have to wait for the slow process of a general public awakening before agricultural reform makes any considerable headway. Landlords can help reform in various ways, by starting home farms, building up pedigree herds of cattle, producing improved strains of seed and introducing more efficient implements and, last but not least, by familiarizing the villagers with the idea of progress. They should help in increasing the attractions of the countryside by living in the villages and promoting sanitary and educational reforms there.

§8. The duties and responsibilities attaching to land-ownership.—It has always been recognized that property in land carries with it special duties and responsibilities. On purely theoretical grounds, it may occur to us to ask how the position of a shareholder in a joint-stock company, who is merely content with drawing dividends without taking any part in the management, is different from that of the landlord who is similarly content with drawing rent and doing nothing else. The answer to this is, in the first place, that it *would* be a good thing if the shareholder were to take a personal interest in the affairs of his company; his failure to do so is often the cause of the mismanagement and consequent ruin of many a joint-stock enterprise. It must, however, be remembered that the average shareholder has neither the leisure nor the necessary knowledge and ability for taking an intelligent interest in the affairs of his company and the enterprise in which it may be engaged. Again, he is only one of many shareholders and his individual attitude does not alter circumstances for better or for worse to any appreciable extent. Because a particular shareholder does not actively help in the management, it does not follow that the concern is left without management altogether. Joint-stock organization has reached such a high pitch of efficiency that there is generally ample provision for able management and leadership in spite of the indifference of the generality of shareholders. Also, as regards the workmen or labourers, we must remember that their position is more favourable than that of agricultural tenants because they can unite and create organizations such as trade unions for effectively expressing and enforcing their wishes. Lastly, as Lord Keynes pointed out, 'the trend of modern joint-stock institutions when they have reached a certain age and size, is to socialize themselves and assume the status of public bodies rather than individualistic private concerns. The general stability and reputation of the firm are the first consideration and dividends assume

quite a secondary position'.<sup>1</sup> In these circumstances, the interests of the labourers (and the consumers) tend to be looked after so as to avoid public criticism. In all these respects, the case of land stands by itself and the idea that all property is a trust to be administered on behalf of the community is felt to have a greater applicability to land than to other forms of property. And in the present helpless condition of the Indian ryot, it is necessary to give prominence to this idea and to make the landlord an effective and useful agent in rural uplift work. This problem has become more urgent than ever today owing to the widespread awakening among tenants, and legislation is either passed or under contemplation in the several provinces for protecting tenants against landlords. Unless the latter read the signs of the times and move with them, it will be increasingly difficult for them to justify the continuance of their right in land merely on the ground of heritage.

#### TECHNIQUE AND EQUIPMENT

§9. Technique: methods of cultivation.—The Indian agriculturist for the most part follows methods of extensive cultivation which are unsuitable in view of the smallness of the average holding, with the result that the yield is much smaller than it need be. Contrasting Indian conditions with those in Japan in this respect, Sir M. Visvesvaraya writes: 'Japan, although not entirely self-sufficing in the matter of food, maintains normally a population of fifty-six millions on a cultivated area of seventeen millions, or one-third of an acre per head as against India's five-sixths of an acre.' Agriculture is carried on in Japan very intensively and thoroughly, almost like gardening, and the salvation of the Indian peasant lies similarly in adopting intensive methods of cultivation. This involves, among other things, more expenditure on permanent improvements and irrigation, more efficient cultivation, careful selection of seed, a better system of rotation of crops and adequate manuring. We have already disposed of the first two items in this list. As regards methods of cultivation, they can occasionally be seen to reach a very high standard in India, but in many parts of the country there is considerable scope for improvement in respect of preliminary preparation of the soil, sowing, harrowing, weeding, thinning and spacing out, harvesting, etc. The value of pure seed of good quality is great, but very often the farmer is either not careful enough in selecting his seed or he fails to get it even when he realizes its importance. There are a certain number of seed societies and seed farms, but they need to be multiplied many times to ensure an adequate supply of seed of high quality to the farmers in all parts of the country. The Agricultural Commission recommended the creation of a separate organization, for the distribution and testing of seed, in charge of a Deputy Director under the Director of Agriculture.<sup>2</sup> As regards rotation of crops,

<sup>1</sup> Lord Keynes, *The End of Laissez-faire*, pp. 42-3.

<sup>2</sup> *Agricultural Commission Report*, par. 103.



there has been a distinct falling-off from former standards. The lure of immediate gain has in too many cases led to an unhealthy and in the long run unprofitable concentration on certain crops like cotton and wheat. Bitter experience will no doubt eventually make the cultivator realize the necessity for a rational system of rotation, but something may also be done by propaganda. A recent welcome development in certain parts is the introduction of groundnut as a rabi crop into the scheme of rotation, and this has been facilitated by the immediately profitable character of this particular crop. The possibilities of giving a place to fodder crops in a regular system of rotation need to be properly explored, especially in view of the present acuteness of the problem of an adequate food supply for the cattle.

There is scope for further improvement in agricultural implements in India and for the replacement of the bullock by mechanical power in operations in the field, for lifting water from wells, grinding corn and crushing oil-seeds and sugarcane.

§10. Manure.<sup>1</sup>—The application of manure and fertilizers is a vital factor increasing the yield from the soil especially in view of the intense pressure on the land. It is, however, not always the farmer's fault that the land is insufficiently manured. There may be no irrigation facilities, and heavy manuring of land in dry tracts is worse than useless. Also, it may often be that the required manure is very scarce and difficult to get, or too expensive, having regard to the limited means of the average cultivator. But on the whole the question of proper manurial treatment of the soil and of the careful conservation of manure is much neglected in this country. One of the wasteful practices to which people in India are addicted is the use of cow-dung as fuel. This should be discouraged, and in so far as the use of farmyard manure as fuel is a matter of necessity,<sup>2</sup> the solution would lie in providing alternative forms of fuel. Waste areas near villages should be planted with fuel trees, and fuel reserves should be established as near the village as possible through the agency of the Forest Department and local bodies. The possibilities of afforestation for increasing fuel supplies and of cheap railway freight for fuel should be thoroughly examined. Cattle urine is usually allowed to run waste, and there is still much prejudice against the use of human excreta as manure, though it is gradually breaking down. The Indian cultivator has much to learn from the Chinese and the Japanese cultivator with regard to the manufacture of composts. In China there is no organic refuse of any kind which does not eventually find its way back to the land as manure.

Investigations into the best possible methods of making compost from

<sup>1</sup> See *Agricultural Commission Report*, pars 80-95, *Agriculture and Animal Husbandry in India* (1935-6), *India in 1934-5*, pp. 10-11.

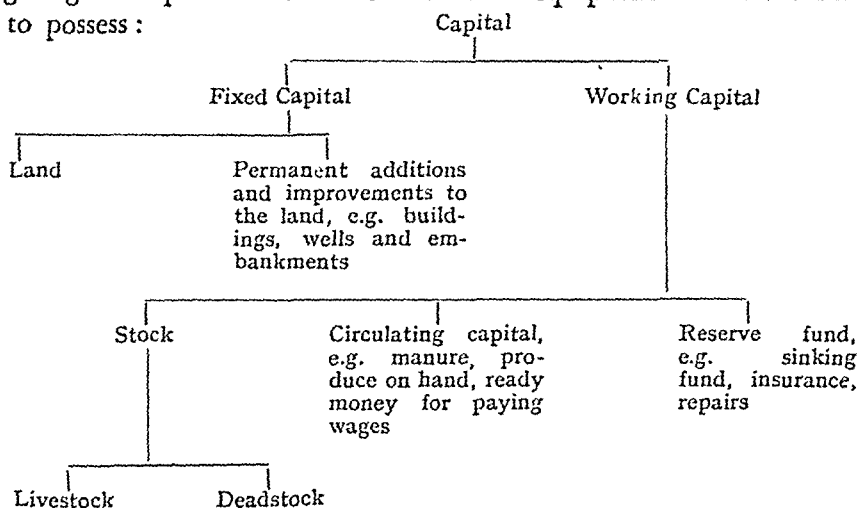
<sup>2</sup> The use of cow-dung as fuel is almost entirely due to the fact that no other fuel is available. Sometimes, however, it is often just thoughtlessness or prejudice. In the Punjab, for example, the belief is apparently common that ghee cannot be made without dung cakes (see F. L. Brayne, *Remaking of Village, India*, p. 6).

village refuse, cane trash, water hyacinth and other materials available in the countryside should be continued and intensified. Attempts should be made to induce villagers to dig pits to be used as latrines and as receptacles for village sweepings so as to serve the double purpose of cleanliness and conservation of manure. The full utilization of human excreta and all garbage and sweepings for agricultural purposes would mean that the present drainage systems in several cities and towns, where all such manurial matter is let into the sea or river water, would have to be changed. Poudrette is the least obnoxious form in which night-soil can be supplied to the cultivator and in this connexion the methods adopted at Nasik are worthy of study by other municipalities. The value of leguminous crops in rotation as a source of combined nitrogen has always been recognized by the Indian cultivator. The Agricultural Departments, however, should investigate the best methods of employing leguminous crops to increase soil fertility. Further investigations into green manuring are necessary. The extended use of bonemeal, fish manure and slaughter-house refuse also needs examination. Research on fertilizers is necessary so that definite advice can be given to the cultivator on their proper use. Steps should be taken to make organic and inorganic manures available to the cultivator as cheaply as possible.

In canal and other irrigated areas, ammonium sulphate, bonemeal, fish manures and oil-cakes are being used in gradually increasing quantities, thanks to the propaganda of the Agricultural Department. It has been decided to establish a unit at Sindri for the manufacture of 350,000 tons of ammonium sulphate per year. The factory is expected to go into full production towards the end of 1950.

### EQUIPMENT

The following classification has been suggested by Mr Keatinge as giving a comprehensive idea of the varied equipment which a farmer ought to possess :



Keatinge remarks that, 'if a man's business is to be put on a sound basis . . . and the maximum profits extracted from the land, every form of capital enumerated above must be provided for in some way or other ; and it is only by a proper understanding of each form of capital that correct accounts can be kept, and the true sources of profits and losses determined.'<sup>1</sup>

§11. Implements.<sup>2</sup>—The Indian agriculturist still largely uses his old and simple implements which are cheap, light and portable, easy to make and to repair, and within the capacity of draught oxen ; but greater productivity obviously depends on the use of improved implements. Iron ploughs, sugar-cane crushers, small pumping machinery and water-lifts have been introduced to some extent, but much still remains to be done in this direction. Other improved implements distributed include harrows, hoes, seed drills and fodder cutters. American methods based on an extensive use of agricultural machinery are ill-suited to a country of small-holders, but these limitations are capable of being partly overcome by co-operative and joint farming. Tractor ploughing for the removal of the deep-rooted weed called *harichi* is being used in the Southern Division of the Bombay province. There is also a large scope for the improvement of agricultural implements worked by hand power and cattle. Intensive propaganda is necessary to induce a large number of cultivators simultaneously to use improved implements, because one of the difficulties in the way of their adoption by the individual cultivator is his fear of ridicule and of being regarded as a crank. The work of popularizing the use of improved implements clearly falls within the scope of the Agricultural Departments, agricultural associations and co-operative societies, and it is desirable that all these agencies should combine and co-ordinate their activities. The Agricultural Departments should give careful thought to the question of cheapening improved implements, for example, by mass production of their wooden parts. Improvement of existing types of implements rather than the introduction of new types should be the aim. Excessive multiplication of implements is likely to confuse the cultivator and make him suspicious of the policy of the Agricultural Department. The railway authorities should be induced to give their most sympathetic consideration to the question of concession rates on agricultural implements and machinery. One of the useful measures adopted by the Agricultural Department is the appointment of agricultural engineers to advise cultivators and to arrange for the installation of machinery, particularly for irrigation, etc. Attention is also being given to the manufacture of improved implements cheaper than those used in the West and simpler to operate. To ensure full benefit from new implements, it is necessary that they should be manufactured in the country itself and full provision should be made for the supply of spare parts and facilities for repairs. The Agri-

<sup>1</sup> *Rural Economy in the Bombay Deccan*, pp. 103-4.

<sup>2</sup> See *Agricultural Commission Report*, pars. 107-10.

cultural Commission suggested that if the protective duty on the import of iron and steel is found to impose a serious handicap on the Indian manufacturer, a rebate might be given on any iron and steel imported for the manufacture of agricultural machinery and implements. If special efforts are put forth—including state aid to indigenous manufacturing firms—our present dependence on foreign supply may soon be expected to diminish considerably or vanish altogether.<sup>1</sup>

§12. Livestock.<sup>2</sup>—Cattle are the most important part of the livestock possessed by the Indian cultivator. 'Without them his fields remain unploughed, store and bin stand empty, and food and drink lose half their savour, for in a vegetarian country what can be worse than to have no milk, butter nor ghee?'<sup>3</sup> In India, cattle supply practically all the motive power for ploughing, for lift irrigation, etc. They are also the principal source of the manure commonly used. Also, carting for hire is almost the only subsidiary rural industry in India, and strong and healthy cattle are necessary as draught animals. Again, the improvement of cattle is important for the development of a well-organized dairy industry, which is often mentioned as offering great possibilities as a subsidiary rural occupation in India. Lastly, the necessity of an abundant supply of milk is obvious in a vegetarian country where milk affords the only easy means of rendering the diet of the people rich enough in nutritive elements for health and strength. In spite of the supreme importance to India of an adequate and healthy livestock, conditions in this respect leave much to be desired.<sup>4</sup> The country is maintaining an excessive number of cattle but they are so deplorably poor and ill-fed as a general rule that there is a serious deficiency of cattle power. There are 67 cattle per 100 acres of net sown area. The inter-provincial distribution of cattle is markedly irregular, even when allowance is made for the nature of the land to be tilled, the extent of well irrigation, the amount of scrub and jungle, the rural population and size of holdings, etc. Considering the general average, the Agricultural Commission argue that, in whatever respects Indian cattle may be lacking, they do not lack in

<sup>1</sup> The Delhi Conference (1938) of the Ministers in charge of Industries strongly favoured the manufacture of all machinery in the country itself.

<sup>2</sup> See *Agriculture and Animal Husbandry in India* (1935-6), pp. 242-54; also *Annual Report of the Department of Agriculture, Bombay* (1939-40), pars. 50-61.

<sup>3</sup> Darling, op. cit., p. 30.

<sup>4</sup> The first general quinquennial census of livestock in British India was undertaken in 1919-20. The report on the fourth quinquennial census taken in January 1935 showed that there were then in British India 153,745,000 head of bovine cattle. The total figure for this census was over 5 millions higher than that recorded at the preceding census in 1930. A large number of these cattle are economically superfluous. The next, i.e. the fifth, quinquennial census of livestock in India, carried out late in 1939 and early in 1940, revealed a total of 147,424,000 but all these figures are incomplete owing to non-participation in the census by certain provinces and States. There was apparently a decrease in the number of cattle in the five years ending 1940, for which the slump in agricultural prices during the thirties is suggested as a contributory cause. *F.I.C.F.R.*, pp. 176-7; see also *Indian Year Book* (1941-2), p. 330.

numbers. Holland possesses the largest number of cattle in relation to the size of the country and yet has 38 cattle per 100 acres of cultivated land. In Egypt, where general conditions under which agriculture is carried on are much more similar to those obtaining in parts of India than in Holland, there are 25 cattle per 100 acres of cultivated land.<sup>1</sup>

The Agricultural Commission were of the opinion that the census figures of livestock in India suggest a vicious circle. 'The number of cattle within a district depends upon, and is regulated by, the demand for bullocks. The worse the conditions for rearing efficient cattle are, the greater the numbers kept tend to be. Cows become less fertile, and their calves become undersized and do not satisfy cultivators, who, in the attempt to secure useful bullocks, breed more and more cattle. As numbers increase, or as the increase of tillage encroaches on the better grazing land, the pressure on the available supply of food leads to further poverty in cows, and a stage is reached when oxen from other provinces or male buffaloes are brought in to assist cultivation, as in Bengal.'<sup>2</sup>

§13. Problem of fodder supply.—The cattle in India are not only overworked but also ill-fed. Tradition and custom fix the responsibility for finding food for his cattle on the European stock-owner. This is not so in India where the cultivator rarely puts forward any special effort to keep his animals in efficient condition—a task difficult enough in any case owing to the natural handicap of periodical droughts and fodder famines. Over the greater part of India there is a shortage of fodder from December to July. The condition of the cattle is especially deplorable between March and June, when they roam about on the parched fields picking up a precarious living, and a large number of them are reduced to bags of bone by the time the rains commence. As soon as the rains set in and the young grass begins to grow, they gorge themselves on it and suffer from various diseases as a consequence. As Keatinge says, there is hardly any lesson that the people in India have to learn 'more important than the growing, efficient storage, and economical use of fodder crops'. The problem of an adequate fodder supply is even more serious than that of food, as fodder is not easily transported from place to place on account of its large bulk and small value. The old days of extensive pastures are gone, never to return, owing to increase of cultivation. No considerable additions to existing grass areas are possible. But it is possible to increase the productivity of land already growing grass. A more sympathetic forest administration in the matter of providing grazing facilities and fodder will remedy the situation to some extent. The possibilities of fodder supplies from forests in times of scarcity should be carefully examined, and grass-cutting should be preferred to grazing. The common pasture land in the village is too small in area and, moreover, owing to the carelessness of the villagers, it is rendered less than it might be, being generally blocked with brambles and useless trees and bushes of all kinds. The best pos-

<sup>1</sup> *Agricultural Commission Report*, par. 188.

<sup>2</sup> *ibid.*, par. 168.

sible use should be made of all grazing lands and experiments should be undertaken in re-seeding, rotational grazing and manuring of grass lands. Considering the serious shortage of green fodder it is necessary to investigate further the possibilities of mixed farming. It is necessary that people should learn the value of growing fodder crops like Egyptian clover, leguminous fodder crops, etc., and laying down pastures. Conservation of fodder stacked dry or preserved green in silos or pits is a matter which requires careful attention. Every effort should be made to prevent wastage, and suitable chaff-cutters should be used for the purpose. Stall-feeding should be more widely resorted to. The Government may encourage all these methods by rewards or remissions of land revenue and premia for well-kept cattle and fodder. The economical use of fodder supply implies the reduction in the number of useless cattle. A large number of maimed and worn-out bullocks and barren cows are maintained in a half-starved condition. In Western countries they would be slaughtered for food. In India the demand for beef is comparatively negligible, and killing of useless cattle is a procedure against which the sentiment of the cultivator and a large part of the public revolts. The cultivator does not kill them but has no objection to starving them. His attitude is 'thou shalt not kill ; but need'st not strive officiously to keep alive'. It would really be much kinder both to himself and to the animals, which are uselessly kept alive in wretched condition, if the Indian cultivator were to take a more business-like view of the matter like the Western farmer. But the prejudices are so deep-seated that we shall have to wait long for reform. Another way to reduce the pressure on the available supply of fodder is to evolve dual-purpose breeds which will render buffaloes largely superfluous as sources of milk.<sup>1</sup>

§14. Cattle-breeding.—Professional cattle-breeders, formerly common in India, are now abandoning grazing in consequence of the growth of cultivation, and cattle-breeding is now regarded as an accident of husbandry rather than as an essential part of it. On the other hand, a constant supply of larger numbers of stud and approved bulls will be required to counteract the tendency to deterioration which is bound to occur in the conditions in which the ordinary stock of the ryot are bred and maintained. Elimination of bulls by compulsory castration is necessary in order to improve the quality, and the Veterinary Department has recently begun to perform this important function by methods unobjectionable to the religious susceptibilities of the people.<sup>2</sup> For selective breeding and cross-

<sup>1</sup>The Agricultural Commission, however, uttered the warning that in view of the difficulty of the task of breeding in Indian conditions even for a single purpose, it should not be endangered by the quest for dual-purpose breeds (*Report*, par. 197).

<sup>2</sup>The Bombay Livestock Improvement Act of 1933, which provides enabling legislation for the compulsory castration of 'scrub' male cattle stock in villages at the instance of local bodies, was applied in 1940 to 77 villages in the province. It has been claimed that, with the co-operation of the villagers, the Act has worked very satisfactorily towards raising the standard of village herds of cattle.—*Annual Report of the Department of Agriculture, Bombay* (1939-40), par. 54.

breeding, animals need to be enclosed. The cattle in Gujarat are superior and present a contrast to the half-sized and quarter-sized animals common in the Deccan. This has been attributed to the prevalence of enclosures in Gujarat. Co-operative breeding societies have been started in some places but some authorities believe that this type of work requires individual attention and does not lend itself to treatment by the co-operative method. The Central and Provincial Ministries of Agriculture are devoting much attention to the problem of cattle-breeding with a view to raising a more efficient livestock both as regards draught and milk. Breeding work is being conducted at the Central and Provincial cattle farms (notably at the Hosur cattle farm, Madras, and the cattle farm at Hissar in the Punjab) in order to bring about an improvement in the milk yield of cattle by better feeding and selective breeding, as also by crossing indigenous breeds with sires of European pedigree.<sup>1</sup> At the Agricultural Research Institute (which was removed from Pusa to New Delhi in 1938), the milk yield of the pure Sahiwal herd has been very greatly increased by these methods, and the experiments that are being conducted are expected to end in the evolution of a well-defined Sahiwal-Ayrshire strain sufficiently hardy for Indian conditions. The apathy of the big landowners is a stumbling-block to progress in this matter and attempts should be made to overcome it by high officials who are in a position to exert influence on them. Giving a more scientific and practical education to the sons of landowners ought also to go a long way towards breaking down the present indifference of the landlord class towards rural economics.

§15. *The Veterinary Department.*—The direct and indirect losses due to disease among cattle are heavy. Loss of cattle by death is an important cause of rural indebtedness. The enfeeblement of the surviving cattle is perhaps an even more serious consideration. The uncertainty of animal life also compels the cultivator to keep reserves of cattle, which he is unable to feed properly, and thus he neglects their quality. It is also one of the reasons of the reluctance even of the larger landowners to engage in cattle-breeding operations.<sup>2</sup> The work of the Veterinary Department in reducing the appalling incidence of disease and mortality among cattle must be briefly noticed. The number of cases treated at veterinary hospitals and dispensaries and by itinerant officers is steadily on the increase, showing a gradually improving appreciation by the public of the valuable work being done by the Department.<sup>3</sup> Not the least important work of the Veterinary Department is granting immunity against contagious diseases in infected areas by compulsory inoculations carried out with sera and vaccines, and here also the tendency on the part of the cultivator to resent such action taken by the Department is on the decline owing to a growing conviction of its utility. In Madras, prophylactic measures

<sup>1</sup> See *India in 1934-5*, p. 17.

<sup>2</sup> *Agricultural Commission Report*, par. 236.

<sup>3</sup> *Agriculture and Animal Husbandry in India* (1935-6), pp. 248-9.

have been taken against rinderpest, the most dreaded of cattle diseases in India. In the same province compulsory inoculation by the serum method has been legalized in villages notified by a District Magistrate. The disease being widespread, effective isolation would be impracticable, and in view of Hindu sentiment, destruction of healthy cattle in contact with infected ones is out of the question. Measures must therefore be devised for protecting the individual animal instead of trying to stamp out the source of infection. Compulsory inoculation, however, is undesirable at present. The Agricultural Commission strongly recommended what is called the 'serum simultaneous' method in preference to the 'serum alone' method of inoculation against rinderpest.<sup>1</sup> No charge should be made for preventive inoculation. The provision of veterinary aid in India is most inadequate and the Commission recommended the establishment in each district of a central veterinary hospital with a number of dispensaries serving the subdivisions of the district. The staff attached to these dispensaries should be increased and men sent out to tour the districts. A substantial increase of veterinary officers of all grades is necessary. Veterinary research work should be concentrated at the Muktesar Institute.<sup>2</sup>

§16. Reserve capital.<sup>3</sup>—As in other industries, so in agriculture, some provision for unforeseen expenditure as well as by way of a sinking fund and insurance is necessary if agriculture is to be conducted, as it ought to be, on sound business principles. It is a common experience, especially in tracts of uncertain rainfall like the Bombay Deccan, that there is a regular cycle of good, bad and indifferent years. Lack of any provision for meeting calamities like famines intensifies the suffering and distress resulting from them. There is similarly no systematic arrangement for meeting the charges on unproductive mortgages or loans or in connexion with depreciation of field improvements and implements. The sinking fund maintained for these various purposes need not be kept idle and in cash. It might be utilized for objects like cattle-breeding or the planting of fuel trees, investments which could be liquidated whenever necessity should arise for so doing.

The principle of agricultural insurance has scarcely yet struck root in India. It is, however, a necessary precaution to insure stacks of fodder, farm buildings, crops, cattle, etc. Insurance is particularly needed in the case of fodder and cattle. The recurrent losses due to rick-burning and cattle mortality are very heavy. A beginning has been recently made in the direction of cattle insurance on a co-operative basis. Failing a regular sinking fund and insurance, for a general resort to which by the Indian farmer we shall have to wait for a long time, the next best plan would be to encourage the cultivator to build a farm-house on his holding,

<sup>1</sup> It has been officially claimed that as a result of systematic work a stage has now been reached at which, given the necessary staff, rinderpest can be brought under control at a comparatively small cost.

<sup>2</sup> *Agricultural Commission Report*, par. 237.

<sup>3</sup> See Keatinge, *op. cit.*, pp. 141-5.



'so that he may be on the spot to protect his property, to have a reserve of fodder, to make his cattle secure against famine, to have an enclosed pasture in which he may segregate them when contagious diseases occur, and to have an irrigation well to serve as an insurance against unemployment in the dry season'.<sup>1</sup>

### ORGANIZATION

§17. Importance of rural industries.—Agriculture is as much in need of organization as any other business, but in India it is at present in a very bad way as regards both internal and external organization. Some of the serious shortcomings in internal organization, such as the absence of economic holdings, permanent improvements, etc., have already been discussed. Another great defect is the absence of subsidiary industries.

There is an appalling waste of rural labour on account of the seasonal character of agricultural operations. Except in irrigated tracts, where it is possible for the cultivator 'to sow something every month and to reap something every month and be always watering and weeding', the average farmer does not get employment on his farm all the year round. The duration of this enforced unemployment has been variously estimated at from 150 to 270 days in the year. Mr E. H. H. Edye, Census Officer for the United Provinces, writes in the Census Report of 1921: 'The bulk of the population is agricultural, and agriculture here means ordinarily the growing, harvesting and disposal of two crops in the year, and not the mixed farming familiar in England. Agriculture of this kind involves very hard work for certain short periods—generally two sowings, two harvests, an occasional weeding in the rains, and three waterings in the cold weather—and almost complete inactivity for the rest of the year. In precarious tracts, inactivity may be unavoidable for a whole season, or even for a whole year. These periods of inactivity are, in the great majority of cases, spent in idleness.' According to Dr Slater, taking the land of South India all round, there is agricultural work for the cultivator only for five-twelfths of his possible working time. Mr J. C. Jack in his *Economic Life of a Bengal District* says: 'The time-table of the cultivator . . . when his land is unfit for jute, shows three months' hard work and nine months' idleness; if he grows jute as well as rice, he will have an additional six weeks' work in July and August.' According to Keatinge, there are only 180 to 190 working days in the year in the Bombay Deccan, while according to Calvert, the work done by the average cultivator in the Punjab does not represent more than about 150 days' full labour. The Royal Commission on Agriculture pointed out that while the amount of spare time varies very greatly according to local agricultural conditions, it may be assumed as a broad generalization that by far the greater number of cultivators have at least two to four months of absolute leisure in the year (par. 488). The U. P. Banking Enquiry Committee estimated

<sup>1</sup> See Keatinge, op. cit., p. 145.

that for the province as a whole the peasant is occupied for not more than 200 days (par. 361).

In the absence of industries ancillary to agriculture, the Indian farmer looks upon the slack season as the time for recreation, marriage and litigation. Occasionally he may accept temporary employment in a town factory or on Government public works or migrate to rural areas to sell his labour, or ply his cart for hire. In the case of the last alternative he has nowadays to reckon with the increasing competition of the motor truck. None of these usual occupations are altogether satisfactory from the agriculturist's point of view. In Japan, the rearing of silk worms is an important supplementary rural industry. France, Germany and Italy all have their own rural industries. Moreover, agriculture in the West is of a mixed and varied character and gives employment to the farmer without any interruption. Dairy-farming, pig-keeping and poultry-farming are the chief rural spare-time occupations. In India no doubt the chief solution of this problem of rural under-employment lies in the intensification and diversification of agriculture. At the same time it is also true that much more can be done than at present to provide the cultivator with a suitable subsidiary occupation for his spare time by the introduction of new and the expansion of existing industries. The problem is how to supply the small farmer in India with some satisfactory spare-time occupations which can be undertaken by him or his family without detriment to the cultivation of his land, in order to add to the income from agriculture.<sup>1</sup> Special attention has been drawn to this question in recent years as a result of the inauguration of the All-India Village Industries Association in December 1934 and certain 'rural reconstruction centres' developed by missionary organizations. The village uplift campaign (see ch. xi) and the keen interest of Government in the revival of rural industries have also served to focus attention on this urgent problem of rural economy.

§18. Dairy-farming, etc.—Dairy-farming is one of the possible subsidiary industries in India, and if it could be successfully established it would not only improve the economic position<sup>2</sup> of the ryot but also solve the problem of an adequate and pure milk supply. The problem is especially acute in urban areas where the milk is adulterated by the mixture of highly injurious substances like boric acid, formalin, etc., and is not only poor in quality but also much dearer than in almost any other country in the world. Attempts to start dairies that have been made hitherto have on the whole failed almost without exception, firstly, owing to the poor milk-producing qualities of the indigenous cattle (which have deteriorated owing to the hard conditions of their life), want of protection by legisla-

<sup>1</sup> For an interesting survey of the existing and possible rural industries, subsidiary to agriculture, in the various provinces of India, the *Reports of the Provincial Banking Enquiry Committees* and the *Report of the Central Banking Enquiry Committee* (par. 299) may be consulted.

<sup>2</sup> The annual cash value of dairy products has been estimated at over Rs. 800 crores.

tion and want of encouragement by the Government. Having regard to the fact that milk and its products are the best possible media for carrying bacteria and germs of typhoid, diphtheria, etc., it is essential that production on scientific lines should be made a financial success so as to ensure a safe and sure supply of milk to the public. Villages adjoining cities should be in a position to cater for the large demand that exists in urban areas for milk of reliable quality at reasonable prices. Even in villages which are distant from towns and cities, there is scope for milk products being manufactured in forms such as cream, ghee and butter, suitable for transport over long distances. Dairy-farming, however, if it is to be properly conducted, involves careful attention to the quality of the animals so that their milk-yielding capacity may be adequate. It is necessary, by means of scientific breeding, to produce good milkers and to breed out the disadvantageous characteristics produced by generations of starvation and of promiscuous mating.<sup>1</sup> The subsidiary industry *par excellence* of the cultivator should be the breeding and rearing of livestock, which would provide an occupation and an income at all seasons and return to the soil the manure which is necessary to maintain its productivity. There are difficulties in the way, such as the crowding of the animals together with the men into the village houses, where proper attention to the cattle is impossible. Existing circumstances such as scattered holdings and congested villages need to be modified in order that animal husbandry on a commercial scale may be possible. Also there are various difficulties noticed above in connexion with adequate grazing facilities and fodder supply which must be steadily overcome in order that there should be a better balance between crop-production and animal industry than at present.<sup>2</sup>

Apart from dairy-farming and cattle-breeding, the following rural cottage and home industries may also be mentioned: poultry-keeping, fruit-growing, fishing, market-gardening, gur-making, hand hulling, sericulture, lac-culture, bee-keeping, tanning, soap-making, mat-making, bamboo and cane-work, rope-making, pottery, knitting, making bidis, toy-making, glass-bangle manufacture, agricultural tool-making and smithing, wood-work, lace and embroidery work, paper-making, pastry- and sweet-making.<sup>3</sup>

It is obvious that not all the industries can be introduced everywhere in India. In order to ascertain the possibility of introducing any of them in the different areas, a series of intensive regional surveys would be necessary.<sup>4</sup> The special conditions of each district and village would

<sup>1</sup> See *Agricultural Commission Report*, Minutes of Evidence, vol. I, part i, pp. 338-41.

<sup>2</sup> See Dr Wright's *Report on the Dairying Industry of India*.

<sup>3</sup> See the *Annual Reports of the Village Industries Association* for further particulars regarding village industries. For an illustrative list of part-time cottage industries in Bombay province see the *Report of the Bombay Economic and Industrial Survey Committee* (1938-40), vol. I, par. 14.

<sup>4</sup> Sir M. Visvesvaraya suggests that, as in Japan, a classification of some districts as primarily agricultural and others as industrial, according to the resources of each

have to be carefully studied and industries selected accordingly. Poultry-farming, for example, would be possible only in those parts where there is no strong religious repugnance to its pursuit as an occupation. A similar consideration would rule out bee-keeping, for example, in Gujarat, where Jainism has a strong hold on the minds of the people. Poultry-farming and market-gardening would again require ready markets near at hand and could be introduced with advantage only in rural areas near towns. Sericulture requires special altitudes and climatic conditions and has now to face the competition of the growing imports of artificial silk.

The Famine Inquiry Commission<sup>1</sup> recommended, among other measures, the development of agro-industry and village public works. By agro-industry is meant the type of industrial undertaking, not cottage industry, which is specially suited for development in rural areas. Factories may be established in such areas for the processing of farm products and may be worked in association with large holders of land and co-operative societies representative of small holders.

Village works of improvement may be started to provide work when agricultural operations are not in progress. For their success the following conditions must be fulfilled: (i) the establishment of a panchayat for each village or group of villages with powers to raise money by taxation; (ii) a system of Government grants-in-aid towards the cost of village improvements; and (iii) the execution of such improvements by the panchayats subject to supervision by Government, District Board or Local Board officials.

§19. Economics of khaddar.—Hand-spinning requires a somewhat more detailed treatment, not so much because of its intrinsic importance as because of the controversy which has raged round the charka and its possibilities. The advocates of the charka maintain that hand-spinning is the only supplementary industry possible and suitable in present conditions for the large masses in rural areas, and that it affords the simplest and quickest means of utilizing existing idle manpower. Mahatma Gandhi, the great preacher of the gospel of the charka, summarized its advantages<sup>2</sup> as follows:

(i) It is immediately practicable, because (a) it does not require any capital or costly implements to put it into operation; both the raw material and the implements for working it can be cheaply and locally obtained; (b) it does not require any higher degree of skill or intelligence than the ignorant and poverty-stricken masses of India possess; (c) it requires so little physical exertion that even little children and old men can practise it and so contribute their mite to the family fund; (d) it does not require the ground to be prepared for its introduction afresh as

should be attempted in the Indian provinces and States, and that the people should be assisted and encouraged to follow recognized occupations. (*Planned Economy for India*, p. 39.)

<sup>1</sup> *Final Report*, pp. 309-11.

<sup>2</sup> See R. B. Gregg, *Economics of Khaddar*, pp. 170-2.

the spinning tradition is still alive among the people. (ii) It is universal and permanent as, next to food, yarn alone can be sure of always commanding an unlimited and ready market at the very door-step of the worker, and thus it ensures a steady regular income to the impoverished agriculturist. (iii) It is independent of monsoon conditions and so can be carried on even during famine times. (iv) It is not opposed to the religious or social susceptibilities of the people. (v) It provides a most perfect and ready means of fighting famine. (vi) It carries work to the very cottage of the peasant and thus prevents the distintegration of the family under economic distress. (vii) It alone can restore some of the benefits of the village communities of India now well-nigh ruined. (viii) It is the backbone as much of the hand-weaver as of the agriculturist, as it alone can provide a permanent and stable basis for the hand-loom industry which at present is supporting from eight to ten million people and supplies about one-third of the clothing requirements of India. (ix) Its revival would give a fillip to a host of cognate and allied village occupations and thus rescue the villages from the state of decay into which they have fallen. (x) It alone can ensure the equitable distribution of wealth among the millions of inhabitants of India. (xi) It alone effectively solves the problem of unemployment, not only the partial unemployment of the agriculturist, but of the educated youth aimlessly wandering in search of occupation. The very magnitude of the task requires the marshalling of all the intellectual forces of the country to guide and direct the movement.<sup>1</sup>

C. Rajagopalachari (now H. E. the Governor-General), writing on the charka in his Memorandum submitted to the Royal Commission on Agriculture, said: 'Hand-spinning is the only occupation that can fill the spare hours of the rural population if we take into account the limited skill and knowledge of the people and the necessary conditions of any spare-time occupation, namely that it should be simple, easily learnt, and capable of being taken up and put aside any time so that it may not interfere with the main occupation.' Similarly, S. V. Puntambekar and N. S. Varadachari, in their excellent essay on hand-spinning and weaving, maintain that the charka has a great future before it and is capable of effectively supplementing the existing mill production so as to provide clothing for the whole population on an adequate scale, if only a suitable organization on decentralized lines is called into existence for the purpose. There are, however, two main difficulties admitted even by fervent advocates of khaddar, namely (i) the taste that has been created for fine fabrics,

<sup>1</sup> Under the auspices of the Indian National Congress, the All-India Spinners' Association was formed in 1923 'to finance and direct the production and sale of khaddar through its various production centres and sales depots'. Although the capital resources of the Association amounted at the end of 1941-2 to no more than Rs. 50 lakhs, as against about Rs. 50 crores engaged in textile mills, employment has been found for more than half the number engaged in the mill industry. See Nanavati and Anjaria, *The Indian Rural Problem*, p. 249.

and (ii) the greater cost of hand-spun cloth as compared with that of mill products, especially those imported from abroad. The second is the greater difficulty and it is suggested that a state bounty should be given so as to help production and make reduction of prices possible, and that this will be necessary only for some time pending an increase in the general prosperity and purchasing power of the poorest classes through the recurring annual savings. Other methods of state help are loans of capital and facilities for production and distribution, reduced freights and preferential treatment in octroi and other taxes. We cannot agree, however, that 'the increase in the purchasing power of the poorest classes', even assuming it can come so easily, will induce them to buy khaddar in preference to the cheaper mill-made cloth. Unless khaddar sells as cheap as or cheaper than mill-made cloth, a permanent system of artificial props in the shape of bounties will have to be maintained at the expense of the general taxpayer. In his preliminary report, the special officer appointed by the Madras Government to carry out a survey of cottage industries, emphasizing the limitations of the khaddar movement in the province, arrived at the conclusion that the annual savings are not sufficient to hold out any large inducement to hand-spinning. These difficulties are real, and apart from the question of cost, it is not easy to change people's psychology and preference for 'cooler and more attractive substitutes for the coarse khaddar which lie within the reach of all but the very poorest'. However, so long as the farmer is not and cannot be supplied with any other more remunerative supplementary industry, hand-spinning offers him some chance of balancing his budget at the end of the year. The case for the charka is this, that spinning on the charka is better than doing nothing whatever. But the quest for more remunerative subsidiary industries must be pursued to bring substantial economic relief to the cultivator.

§20. Some other rural industries.—Another way to tackle rural unemployment is to promote the establishment, in rural areas, of industries connected with the preparation of agricultural produce for consumption and export, such as cotton-ginning, decortication of groundnuts, rice-milling and husking, manufacture of refined sugar, oil-pressing, manufacture of bone manure, etc. These industries should, as far as possible, be organized on co-operative lines. They should not be concentrated in towns but should provide widespread rural employment. The supply of cheap electric power would be a great facility for the development of such industries connected with agriculture. The Punjab and Bombay offer a promising field for the establishment of hydro-electric works for the distribution of cheap power in rural areas. A suitable system of technical education is a *sine qua non* of success. State aid to these industries will also be necessary, at least in the beginning. The Agricultural Commission favoured the local manufacture of agricultural implements by private firms helped by the engineering sections of the Agricultural Departments. This would also reduce the present heavy cost of transport and bring the local price within the reach of the agriculturist. The exploitation of bamboo

as a material for paper manufacture might give employment to the rural population living on the outskirts of forests. Preservation of fruit by drying, canning and making into jams seems to hold out much prospect of employment to the agricultural community and of profit to the promoters.

§21. Defective marketing of agricultural produce.<sup>1</sup>—So long as the Indian farmer was practising subsistence husbandry and enjoying the protection of the old village organization, perhaps no further and special organization was necessary in rural areas, but today the conditions are altogether different. While the commercialization of agriculture and the establishment of wide and competitive markets have made a stronger organization necessary, even the old archaic organization has been so weakened that it has ceased to be serviceable, and the ryot is left without any guidance or protection to face an altogether novel situation. As the Agricultural Commission remarked: 'His interests have in the main been left to the free play of economic forces, and they have suffered in the process. For he is an infinitely small unit as compared with distributors and consumers of his produce who, in their respective fields, become every year more highly organized and more strongly consolidated.'<sup>2</sup>

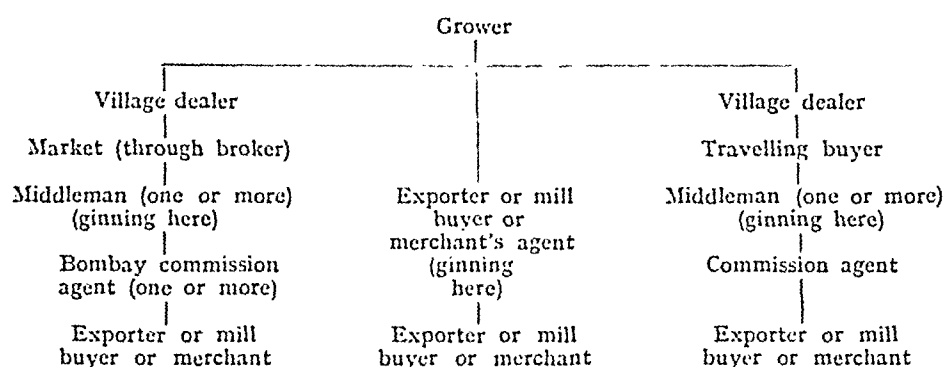
It is a common experience everywhere that the producer of raw materials generally fails to get his fair share of the good things of the world, and this is particularly the case at the present time in India where farming is carried on by small units unassisted by any special organization for their protection. The Indian cultivator is normally dependent on the money-lender, to whom his crops are often mortgaged in advance. Besides the money-lender, there are a number of professional dealers and middlemen who attach themselves at every point and create a comfortable corner of nourishment for themselves at the expense of the cultivator. A further difficulty arises owing to an inadequate provision of roads, bridges and feeder railways to enable the agriculturist to deal directly with the consumers or wholesale dealers. Other handicaps of the cultivator are: absence of literacy, absence of properly regulated markets and of combinations among farmers, the chaotic condition of weights and measures, unauthorized deductions of a number of market allowances, inadequate storage facilities, absence of standardization, grading, and uniform packing and absence of a proper system of market intelligence.<sup>3</sup> In these circumstances, it is not surprising that the cultivator does not get a fair price for his produce. Owing to his chronic short-

<sup>1</sup> For a comprehensive treatment of the problem of agricultural marketing, consult the chapter 'Marketing of Agricultural Produce' by S. G. Beri in *Co-operation in India* (edited by H. L. Kaji), pp. 340-65.

<sup>2</sup> *Agricultural Commission Report*, par. 320.

<sup>3</sup> For particulars regarding methods of sale, malpractices prevalent in the market and the various marketing charges, see *Report on the Marketing of Wheat in India* (1937), pars. 148-62. This Report has revealed the fact that out of a rupee which the consumer pays for his wheat the producer gets nine annas and a half. According to a more recent (1941) Report on the marketing of rice in India, the cultivator gets only eight and a quarter annas of the rupee paid by the consumer.

age of capital and the need to satisfy the demands of the *sahukar* and of Government land revenue, he is compelled to sell his produce at a disadvantage just when everybody is selling and the market is glutted. There is a long chain of middlemen, especially in the case of staple exports. Large firms often enter into forward contracts with the cultivator, to whom advances of money are given in anticipation of the delivery of produce. As a typical example of the multiplicity of middlemen who intervene between the cultivator and the consumer, the following diagram is reproduced from the Memorandum submitted by the Indian Central Cotton Committee to the Royal Agricultural Commission.<sup>1</sup>



As the Memorandum goes on to remark, the possible variations are obviously extremely numerous and the number of intervening middlemen may be very high. But even if we put aside extreme cases, there are usually too many intermediaries between the agriculturist and the consumer, such as the agriculturist's local agent, the *mofussil* purchaser's agent, *mofussil* purchaser and retail purchaser. And as V. L. Mehta points out in his Memorandum, it would be possible to eliminate these intermediaries by the adoption of the co-operative method. A co-operative sale society, for example, may dispense with the local agent and the *mofussil* purchaser's agent and make possible direct dealings with the *mofussil* purchaser. Not only this, but if there are efficient consumers' societies at the centre, all the intermediaries may be eliminated, to the very great advantage of both producer and consumer.<sup>2</sup> Co-operation offers the only satisfactory solution for enabling the agriculturist to realize the full market price of his produce. The agriculturist sometimes deals directly with the consumer, but as each cultivator acts for himself, a disproportionate amount of time and energy is necessarily involved in taking the produce over considerable distances and disposing of it in small quantities.

§22. Co-operative sale.—It is only recently that the realization has dawned upon the Agricultural and the Co-operative Departments that rural marketing is the crux of the whole question of rural prosperity and bet-

<sup>1</sup> *Agricultural Commission Report*, Minutes of Evidence, vol. II, part ii, p. 21.

<sup>2</sup> *ibid.*, vol. II, part ii, p. 110.



terment, and the movement for co-operative marketing has already made some headway in India. Burma led the way by inaugurating joint paddy sale societies. But the most promising development has been in the sale of cotton in provinces such as Bombay. Co-operative cotton sale societies have been started in Bombay, the Central Provinces, Madras and the Punjab. The movement has so far achieved the most considerable success in Bombay, where there are four principal areas in which cotton sale societies are situated: (i) Dharwar and Belgaum; (ii) Bijapur; (iii) Surat, Broach and Kaira and (iv) Khandesh, those in the first and third areas being the most important. These societies have established their reputation as an effective agency for improving the quality of cotton grown and securing better prices to the cotton grower. Several different types of organization are being given a trial: (i) societies which pool their members' produce, arrange for ginning and sell ginned (and baled) cotton; (ii) societies which organize periodical auction sales of graded kapas—the sales being on individual account; (iii) co-operative commission shops which provide storage so that the grower is not obliged to sell on an unfavourable day—such societies are being tried in the Punjab; and (iv) co-operative ginning and sale of members' cotton by seed unions. These unions are mainly organized for the production of pure seed and can scarcely be regarded as touching the real question of cotton marketing. The first type is the only one which makes a serious attempt to dispense with the small middleman altogether and has attained some measure of success in the Surat District, where the cotton sale societies have recently combined in a Sales Union which has taken over the co-operative ginning factory already started by the members. Another duty of the Union is to have the cotton of societies insured, securing a rebate on premiums which forms its main source of income. The second type is in operation mainly in the Dharwar District with Gadag and Hubli as the prominent centres.

However, the progress of co-operative marketing organization even in its most remarkable development, namely, in cotton, has not been very rapid, nor has it been unattended entirely by serious defects, such as: lack of skilled technical advice and guidance, expert knowledge of market conditions and trends, and ability for proper business management; absence of hold on the members (who cannot be legally forced to sell their cotton through the societies); inadequate finance (specially hindering prompt advances of money to growers), lack of godown and storage facilities, ignorance about internal and external markets, isolation of the sale societies. Paucity of trained personnel over and above the opposition of the vested interest of traders hinder the organization of co-operative sale societies. All these defects must be removed, and the movement must be efficiently organized and skilfully worked in order that it may be able to fight against the powerful vested interests of dalals, adatyas and other middlemen.<sup>1</sup> The Reserve Bank of India should extend

<sup>1</sup> See *Agricultural Commission Report*, Minutes of Evidence, vol. II, part ii, pp. 22-31.

financial help to Co-operative Marketing Societies through the Provincial Co-operative Banks. (See ch. x.)

The principle of co-operative sale has been extended to other agricultural products such as gur, tobacco, chillies, paddy, areca nuts and potatoes, and there is a fairly efficient organization for the sale of gur, especially in the canal areas in Bombay province. Unfortunately the experiments made in Bengal in the co-operative sale of jute and paddy have not met with success. Recently societies for the sale of paddy, sugar-cane and fish have been organized. Madras has a number of sale societies, but their transactions are small and they have not made much progress.<sup>1</sup> However, as indicated above, the sale movement has struck root in the Bombay province, especially in Gujarat and Bombay Karnatak, where the cotton-grower has reaped considerable benefits from the cotton sale societies. Co-operative marketing has made great strides in the United Provinces, where societies for the marketing of sugar-cane are rapidly growing in importance. Noteworthy progress was recorded in organizing ghee sale societies. A scheme for the production and marketing of potatoes, cereals and fruits was introduced in the year 1939-40 and societies were organized for the sale of these commodities. In Bihar also cane-growers' societies are being organized. In other provinces only limited progress has been achieved in organizing co-operative marketing. The new marketing organization (see §§24-5 below) established by the Government of India and the provincial Governments is expected to stimulate the development of co-operative marketing of agricultural produce in India.

§23. Certain improvements in marketing organization.—Modern industry requires that consignments should be up to sample and uniform from year to year; and unless these conditions are fulfilled, large-scale marketing for distant customers cannot be satisfactorily conducted to the fullest possible advantage of the primary producer. At present various abuses exist such as damping and admixture, not only on the threshing floor but also in the godowns of brokers and dealers. Legislation has been felt to be necessary in order to prevent these malpractices. As we have already mentioned, at the instance of the Indian Central Cotton Committee, the Cotton Transport Act and the Cotton Ginning and Pressing Factories Act were passed in 1923 and 1925 respectively. Under the former Act (which now applies to the most important staple cotton areas of the Bombay and Madras provinces and of the Baroda, Rajpipla and Indore States) the provincial Government is enabled to notify definite areas of cotton for protection and to prevent the importation of cotton from outside these areas except under licence. This is aimed against the practice of importing inferior cottons for purposes of adulteration, which had resulted in ruining the reputation of several valuable varieties of staple cotton. Under the

<sup>1</sup> There is also the Madras Provincial Co-operative Marketing Society, which was started in 1936 with a view mainly to co-ordinating the activities of the sale societies. It is not, however, a real provincial apex society in the accepted sense of the term.

Cotton Ginning and Pressing Factories Act which, as already said, is a corollary of the former Act, provision has been made for a certain amount of control of ginning and pressing factories and for the marking of all bales of cotton pressed with a press-mark and serial number so as to facilitate tracing them to their origin. A third piece of legislation, which also affects cotton, was the Bombay Cotton Markets Act (1927), which, while based on the Berar model (the Berar Cotton and Grain Markets Law of 1897), was in some respects in advance of it. It was of an enabling character and permitted the notification of open cotton markets where trading took place in the unbaled cotton brought by the grower under proper rules and by-laws administered by a market committee, on which the cotton-growers were represented. This Act was repealed following the enactment in 1939 of more comprehensive legislation, viz. the Bombay Agricultural Produce Markets Act. Legislation seeking to establish regulated markets has also been adopted by Hyderabad (1930), Madras (1933),<sup>1</sup> the Central Provinces (1935), the Punjab (1939),<sup>2</sup> Mysore (1939) and the N.-W. F. Province (1939). With the help of regulated markets, which are administered by a representative marketing committee which controls licensed brokers operating in the market, the grower can obtain a square deal owing to the operation of rules designed to protect him from unauthorized deductions, false weighings and unduly low quotations. Another advantage is that through the agency of such an organization the cultivator should gain that touch with substantial buyers which selling in the open market promotes.

It is natural that attention should have been first directed towards the development of an efficient marketing organization in the case of cotton, the most important commercial crop. It is, however, desirable that the principle should be extended to other crops also. A serious drawback in the existing marketing organization is the absence of information in regard to marketing conditions, such as collection, storage and transport of produce, and manipulation, together with a detailed analysis of the price structure at every stage. (See however §26 below.) This is essential in evolving a satisfactory policy for securing improvement in marketing. The Indian Central Cotton Committee made some investigations into the finance and marketing of cultivators' cotton, and their reports contain much valuable information.<sup>3</sup> The Agricultural Commission strongly emphasized the need for undertaking marketing surveys and for the training of the necessary personnel. They recommended the appointment of an expert marketing officer under the Agricultural Department in each province.<sup>4</sup> The various provincial Banking Enquiry Committees devoted a great deal of attention to the marketing conditions in various provinces

<sup>1</sup> Amended by Madras Act XIX of 1939 and Madras Act III of 1940.

<sup>2</sup> The Punjab Act came into force in October, 1941.

<sup>3</sup> See *General Report* (also separate *Reports*) on *Eight Investigations into the Finance and Marketing of Cultivators' Cotton* (Indian Central Cotton Committee).

<sup>4</sup> *Agricultural Commission Report*, pars. 347-8.

Marketing Officers, one Supervising Officer for experimental grading and packing stations, and twelve Assistant Marketing Officers. The provincial marketing staff consists of a Chief Marketing Officer and Assistant Marketing Officers. The cost to the provinces of Rs. 2 lakhs per annum was borne by the Central Government for a period of five years. Besides 92 full-time Marketing Officers operating throughout India, 226 officers were nominated to deal with marketing questions in the smaller Indian States and Minor Administrations.

The work done by the central marketing staff in conjunction with the provincial marketing staff fell into three main divisions: (i) investigation work, (ii) development work and (iii) work on grade standards. The investigation work included a series of marketing surveys with immediate reference to the more important commodities, such as cereals, oil-seeds, tobacco, fibres and fruit, and animal husbandry products, dairy products and livestock. Certain general questions were also included, such as regulated markets, problems of transportation, storage and preservation of commodities. The marketing surveys set out in detail the system of marketing the commodities concerned, not only in each of the provinces separately but also in respect of inter-provincial, inter-State and foreign trade, so as to provide an all-India picture of the existing conditions and a common basis for future progress. The reports on marketing surveys formulated proposals regarding the essential and practicable improvements. The work connected with the execution of these surveys was shared between the central and provincial marketing staff, and the planning of the surveys, compilation of data, and preparation of the results fell mainly on the central staff. The development work, which must obviously depend upon the results of the marketing surveys, included the demonstration of any recommendations made with the object of keeping the producers and traders in touch with consumers' requirements, and the popularization of the recommended standard grades, containers, etc. The development work for each commodity has to be done mainly by the provincial marketing staff. The work on grade standards is of a technical character relating to the chemical and physical characteristics of such products as oil-seeds, grains, fruit, etc., and the testing of grading technique and equipment under practical conditions.

§25. Work done by the marketing organization.—Although the marketing organization has been in full operation for a comparatively short period, a good deal of work has already been accomplished. By the end of the year 1940, 29 marketing surveys of various provinces and Indian States had either been completed or had reached an advanced stage. In carrying out the investigation work in close consultation with producers, distributors, wholesalers, manufacturers, railway agents and other groups of persons concerned in the production and distribution of commodities, special attention has been given to a study of prices and the quality of the products concerned. Surveys were in the first instance initiated in regard to rice, wheat, linseed, groundnuts, tobacco, coffee, fruits, milk, eggs,

livestock and hides and skins; and also in respect of markets and fairs and co-operative marketing. Already thirteen all-India Marketing Survey Reports have been published. Special mention may be made of the first Report, viz., the *Report on the Marketing of Wheat in India* (1937). It gives an exhaustive picture of the marketing of wheat in this country and contains much valuable material which should be of interest to all those connected with the wheat trade.<sup>1</sup>

Earnest efforts were made after the commencement of the year 1937 to put into practical effect the preliminary results obtained in the course of the marketing surveys. Much of the information so collected was compiled for use in discussions with the producers and trade interests concerned with grains, oil-seeds, ghee, milk and dairy products. At the same time the preliminary surveys showed that the selling of mixed produce of doubtful quality is a common practice which adversely affects the returns to produce. There proved to be, therefore, a *prima facie* case for the better grading of agricultural produce in order to eliminate waste and provide a common basis for trading on standard quality to the advantage of both producers and consumers. With this end in view the Agricultural Produce (Grading and Marketing) Act was passed by the Central Legislature in February 1937, providing for the fixing of grade designations to indicate the quality of any scheduled article of agricultural produce, for defining standards of quality, and specifying grade designation marks. The rules issued under the Act empower the Agricultural Marketing Adviser to issue certificates of authorization to suitable persons who are prepared to grade and mark their produce. To give a practical lead to all concerned the central marketing staff initiated the grading and marking of different commodities at 25 experimental centres. In 1940 standardized grading and marking of several commodities, such as eggs, ghee, butter, rice, fresh fruits, tobacco, cotton, etc., was carried out commercially at over 400 centres. During 1940 alone more than Rs. 102 lakhs worth of produce was sold under the Agmark as compared with Rs. 61 lakhs in 1939.<sup>2</sup> The success achieved at these centres in spite of many difficulties clearly indicates that there is a demand for graded goods, and that, particularly for perishable goods such as eggs and fruits, producers can in many cases secure considerably better returns by proper grading. Provincial and State marketing staffs have assisted in establishing these grading stations. With the necessary backing from their Governments they were able to develop this side of their work rapidly. It is necessary, however, to devise arrangements for safeguarding the interests of the primary producer, for it was revealed at the 1941 Marketing Officers' Conference

<sup>1</sup> Besides the marketing survey work which was carried on by the central marketing staff and the marketing officers appointed by the different provinces and States, the various statutory all-India Central Commodity Committees (for lac, jute, sugar, coffee, and cotton) had their own marketing staff to carry out special surveys on the products concerned in close association with the central and local marketing staffs.

<sup>2</sup> *Annual Report on Agricultural Marketing in India* (1940), p. 3.

that of the total value of graded produce sold in the market, only 18 per cent was handled by the producers, the balance being sold by middlemen.

Substantial progress in regard to the standardization of uniform contract terms (for white wheat, linseed, and groundnuts) has been made with the co-operation of many trade associations covering the whole of India.

Finally arrangements were made for a Market News Service through weekly broadcasts from the Delhi Station of the All-India Radio in English and Indian languages regarding prices, stocks and movements of wheat, linseed and rice, and daily broadcasting of the closing rates at Hapur market. Similar steps were taken by provincial marketing officers to improve the system of marketing news service, e.g. the Bombay Government have since 1941 set up a price intelligence service through the agency of the Revenue Department. The other items of the better system of marketing planned by the Government of Bombay refer to the development of co-operative sale societies, the establishment of regulated markets and standardization of products under the Agmark scheme for ensuring the quality of supplies. A Provincial Co-operative Marketing Society was registered at Bombay in 1941. It was the first model society for the country and hoped to attract business from other provinces as well.

The whole question of the future development of agricultural marketing was considered by the conference of Ministers on agricultural marketing held at New Delhi in 1941. It recognized the need for slowing the pace of departmental surveys and accelerating development work, and made valuable suggestions for filling the serious gaps revealed in the existing marketing organization.

A number of Indian States offered their co-operation in the improvement of agricultural marketing, which is the real crux of the whole question of rural prosperity. This great combined effort is expected to bring results of substantial benefit to the Indian agriculturist.

§26. Need for warehouses, standardization of weights and measures, etc.—Another improvement in marketing organization relates to the provision of suitable warehousing facilities and of the issue of warehouse certificates to the growers, who should be enabled to obtain advances from co-operative and other banks against the deposit of such certificates. This should make it possible for the grower to hold his produce against a favourable turn of prices. In this connexion we would invite attention to the American system of licensed warehouses and the Egyptian scheme of loans on the security of cotton to assist the small producer. The reports of the various provincial Banking Enquiry Committees had much to say on the question of the applicability of these two schemes to Indian conditions and expressed a variety of opinions as regards legislation for licensing and otherwise controlling warehouses. For example, the Punjab Committee opined that such warehouses are at present premature, but may be needed in time.<sup>1</sup>

<sup>1</sup> *Report of the Punjab Banking Enquiry Committee*, par. 92.

The Bombay Committee, on the other hand, recommended that licensed warehouses should be introduced in a few important centres to begin with.<sup>1</sup> The Central Banking Enquiry Committee made several useful recommendations in this connexion. They suggested that the question of providing warehouses by private agencies and licensing them, and the provision of capital for their construction, should be taken up by provincial Governments, their efforts being co-ordinated by the Imperial Council of Agricultural Research. The problem of starting railway warehouses should be undertaken by the railway Board and the railways should be asked to start experiments at selected centres. Provincial Governments should offer long-term loans at concessional rates of interest to co-operative societies to build godowns in centres which provide good markets.<sup>2</sup> It is gratifying that the Governments of Bombay and Madras have commenced the grant of such loans to multi-purpose societies and marketing societies. It is generally believed that it would be premature to adopt the Egyptian Cotton Scheme, as its utility even in Egypt has not been established, and as it is not desirable to encourage the small cultivator under present conditions to hold up produce for a long period in the hope of a rise.<sup>3</sup>

Another much-needed reform is the standardization of weights and measures. This has been strongly emphasized by the Agricultural Commission, the various provincial Banking Enquiry Committees and the Central Banking Enquiry Committee. In this connexion attention may be invited to the Central Provinces Weights and Measures of Capacities Act (1928) which lays down the units of weights and measures and empowers the Government to secure standardization by notifying areas for the purposes of the Act. A similar Act came into force in the Bombay Presidency in the year 1935. As recommended by the Ministers' Marketing Conference, a Standards of Weight Bill was passed by the Central Legislature in 1939. Pending the issue of the necessary rules under the Act, and the manufacture of certain sets of standard weights, local effect has been given to the standards of weights prescribed under the Act in several provinces including Madras, Bengal, the United Provinces, and the Central Provinces.<sup>4</sup> The introduction of the metric system is an obvious reform. But unfortunately the proposal has not received the support it deserves from leaders of popular opinion.

In conclusion, it is necessary to consider the possibility and advisability of creating throughout the country properly regulated forward markets run on orthodox lines in the interest of both sellers and buyers so that the value of produce may be hedged and the risk of market fluctuations mitigated.<sup>5</sup>

<sup>1</sup> *Report of the Bombay Banking Enquiry Committee*, par. 151.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, pars. 279-82.

<sup>3</sup> See *Reports of the Punjab Banking Enquiry Committee*, par. 93 and of the *Central Provinces and Berar Banking Enquiry Committee*, par. 1085.

<sup>4</sup> *Annual Reports of the Agricultural Marketing Adviser* (1940), p. 3, and (1941), p. 6.

<sup>5</sup> The main difficulty in regard to the working of the regulated markets is the paucity

## CHAPTER IX

### RURAL INDEBTEDNESS

§1. Rural indebtedness : a serious problem.—Owing to her fertile soil, abundance of labour and considerable inherited agricultural skill, India seems to be marked out by nature as a prosperous agricultural country. And yet Indian agriculture is in a very backward condition and the lot of the average cultivator in India is not far removed from utter destitution. The existence of crushing debt is universally acknowledged to be one of the main causes of this state of affairs. As the late Mr Wolff put it : 'The country is in the grip of the mahajan. It is the bonds of debt that shackle agriculture.'<sup>1</sup> The presence of a huge volume of indebtedness, which is for the most part unproductive, inhibits improvement in every direction and constitutes one of the most serious problems of agricultural economy in India.

§2. Extent of indebtedness : early inquiries.—In 1875, the Deccan Riots Commission, analysing the situation in twelve villages in the Ahmednagar district (Bombay), came to the conclusion that one-third of the occupants of Government land were embarrassed with debts, that these debts averaged about eighteen times the assessment, that two-thirds of the debt was secured by mortgage of land and that the average debt per occupant amounted to Rs. 371.

The Famine Commission of 1880 inferred from evidence collected from all parts of India that one-third of the landholding classes were deeply and inextricably in debt and that at least an equal proportion, although in debt, were not so beyond the power of recovering themselves. In 1895 Sir Frederick Nicholson estimated the total rural debt of Madras at Rs. 45 crores.

The Famine Commission of 1901 came to the conclusion that one-fourth of the Bombay cultivators had lost possession of their lands, less than one-fifth of them were free from debt and the remainder were indebted to a greater or less extent.

Sir Edward Maclagan calculated the total agricultural debt of British India to be about Rs. 300 crores in 1911 on the basis of Nicholson's estimate for Madras. M. L. Darling, preferring the Punjab figure of 1924 as a more reliable basis than the Madras figure of 1895, arrived at the

of the right type of representatives of agriculturists to work on the Market Committees; so-called representatives of agriculturists are too often found to barter away the interests of agriculturists even for a petty inducement. Dr Shirname, an authority on this subject, considers that it might be desirable, at least for some time, to discard the principle of democracy and 'attempt to regulate markets only through a strong and effective Government or any other executive machinery'. (See p. 258 of the *Proceedings of the Fourth Conference* (Dec. 1943) of the *Indian Society of Agricultural Economics*.)

<sup>1</sup>H. Wolff, *Co-operation in India*, p. 3.



figure of Rs. 600 crores for 'British' India. 'The Punjab figure (90 crores) is nineteen times the land revenue of the province. Applying this multiple to the land revenue (33.45 crores) of British India (including Burma) in 1923-4, we get a debt of Rs. 674 crores. There is, however, reason to believe that the Punjab is more highly indebted than most parts of rural India. Various things suggest this: for instance . . . the number of money-lenders, which in proportion to population is three times as great in the Punjab as in the rest of British India, and the special legislation that has had to be passed to protect the cultivator against the money-lender. Instead therefore of taking a multiple of 19, it will be safer to take one of 17. This gives a total of 603 crores. The amount is probably higher, as wherever there is a permanent settlement, land revenue is on a much lower scale than elsewhere; nor does the land revenue figure taken for British India include land revenue enjoyed by assignees, though it does in the case of the Punjab. Further, if we apply the Punjab figure in terms of population, we get a total of 1,080 crores, for the rural population of the Punjab is only one-twelfth of that of British India. Very tentatively therefore we may say that the total rural debt of British India with its population of 247 millions, is not less than 600 crores.'<sup>1</sup>

The investigations into this question on the part of the various provincial Banking Enquiry Committees in 1929-30 resulted in comparatively more comprehensive estimates which have confirmed this general impression left on the mind by the earlier inquiries while adding a little more definiteness to it.<sup>2</sup> The estimates do not pretend to be thoroughly accurate but are useful by way of giving a general notion of the total debt.

§3. Estimates of agricultural indebtedness by provincial Banking Enquiry Committees.—We give below estimates of rural indebtedness culled from the reports of the various provincial Banking Enquiry Committees published in the course of the year 1930.

(i) *Bombay*.—The total agricultural debt of the whole province including Sind was estimated at Rs. 81 crores. This worked out at fifteen times the total land assessment that is about 53 per cent of the average value of the total agricultural produce of the province. The average debt per family came to Rs. 329. The percentage of families free from debt was 13 in Sind; 21 in North Gujarat; 23 in South Gujarat; and 29 in the Konkan (pars. 49-50, 54). (ii) *Madras*.—The maximum figure for the year of the

<sup>1</sup> For the whole of India we may put total agricultural debt at about 1,000 crores.' Darling, *Punjab Peasant*, fourth edition, p. 19; see also second edition, p. 17, and third edition, pp. 18-19.

<sup>2</sup> The Agricultural Commission suggested that periodical reports on money-lending should be prepared and issued by the Income-Tax Department so as to throw some light on the different aspects of rural debt (*Report*, par. 368). The same object can be served by reports on the working of the Money-lenders' Acts, requiring registration and maintenance of accounts by them, passed in recent years in several provinces: see §8 below.

total debt was in the neighbourhood of Rs. 150 crores and the debt continuing from year to year was about Rs. 70 crores. The average debt for the Province was Rs. 19 per rupee of assessment (pars. 96, 98). (iii) *Bengal*.—The total agricultural debt for the whole of Bengal was estimated at Rs. 100 crores. The average debt per agriculturist family was Rs. 160 (par. 90). (iv) *United Provinces*.—The United Provinces Banking Enquiry Committee arrived at the figure of Rs. 124 crores (in round figures) for the total debt of the landlords, peasant proprietors and tenants in the whole province (Appendix II). (v) *Punjab*.—The total agricultural debt of the Punjab was estimated at Rs. 135 crores in 1929 as compared with Rs. 90 crores in 1921, thus showing an increase of 50 per cent upon the estimate of the latter year. The debt's multiple of land revenue was 27 in 1929 as compared to 19 in 1921. The debt per head of those supported by agriculture was Rs. 104 in 1929, as compared with Rs. 76 in 1921. The debt per cultivated acre rose from Rs. 31 in 1921 to Rs. 45 in 1929 (par. 22). (vi) *Central Provinces and Berar*.—The total debt of about Rs.  $36\frac{1}{2}$  crores came to about 49 per cent of the normal gross crop outturn. The interest charges amounted to  $2\frac{1}{2}$  times the total land revenue demand, and to more than one-third of the normal balance from agricultural income. The total cultivators' debt was Rs. 227 per cultivating family (pars. 644, 653-4). (vii) *Bihar and Orissa*.—The total rural indebtedness for the whole province was Rs. 155 crores. Of this, Rs. 24 crores could be put down to the landlords, Rs. 2 crores to the other rural households excluding ordinary cultivators, and Rs. 129 crores to the ordinary cultivators (par. 90). (viii) *Assam*.—The total agricultural indebtedness of the plains districts was over Rs. 22 crores, that is 21 times the annual land revenue. The average debt per family was Rs. 242. Fifteen per cent of the families were free from debt (par. 33). (ix) *Central Areas*.—The total indebtedness in the areas centrally administered was estimated at Rs. 18 crores and that for Coorg was between Rs. 35 and Rs. 55 lakhs.

From these estimates it would appear that the total agricultural indebtedness of the British Indian provinces<sup>1</sup> in 1929 was in the neighbourhood of Rs. 900 crores,<sup>2</sup> though these estimates have no pretensions to complete accuracy. It was believed to exceed Rs. 1,200 crores for British India alone in 1941.<sup>3</sup> The actual incidence or burden of indebtedness became much more crushing after the first world war, more particularly during the economic depression after 1929.<sup>4</sup>

The seriousness of the debt, however, does not lie in its volume nor in its rate of growth. What gives cause for uneasiness is that the greater

<sup>1</sup> Including Burma.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, par 77.

<sup>3</sup> P. J. Thomas, *The Problem of Rural Indebtedness* (1941), p. 19.

<sup>4</sup> 'Measured in commodities, it must now be twice as large as a result of the fall in prices since 1929.'—*Preliminary Report on Agricultural Credit by the Reserve Bank of India* (1936), par. 13.

part of the debt is unproductive. For example, according to Darling, less than five per cent of the debt in the Punjab is due to land improvement.<sup>1</sup> New debts are contracted to repay old ones to a very large extent. §4. The causes of indebtedness.—If indebtedness is a cause of poverty, the reverse also is equally true. It is, therefore, to be expected that much of what is advanced in explanation of the indebtedness also explains the poverty of the rural masses in India. We may take the following as the principal causes of rural indebtedness:

- (i) *The excessive pressure of the population on the land.*
- (ii) *The excessive subdivision and fragmentation of the soil.*
- (iii) *The decline of the cottage industries and the loss of income to the ryot owing to the absence of a subsidiary occupation in the off season.*<sup>2</sup>
- (iv) *The ill-health of the ryot.*—At certain seasons, sickness, e.g. malaria, puts the cultivator out of action when his labour is most needed, and generally lowers his efficiency to a very serious extent.
- (v) *The insecurity of harvests.*—This feature has justified the description of Indian agriculture as a gamble in the monsoon which, as Darling remarks, 'has all the proverbial caprice of the Eastern potentate'. It has been calculated that an agricultural cycle of five years gives one good year, one bad and three that are neither good nor bad. It is only in good years that the peasant can possibly keep himself out of debt.
- (vi) *The loss of cattle owing to famine and disease.*—Diseases like rinderpest are another obvious cause of the economic embarrassment of the cultivator, as evidenced by the large percentage of loans given by co-operative societies for the purchase of cattle.
- (vii) *Depreciation.*—Another cause is the failure to provide for depreciation of cattle and implements, so that when their usefulness comes to an end there is no fund to replace them without borrowing. There is thus a steady consumption of capital going on. This is largely due to a lack of appreciation of facts, but is also partly the consequence of a desire for a higher standard of living. It is difficult to put aside funds for depreciation of, say, cattle, when so many desirable things, whether luxuries or not, are lacking in the household. The difficulty is aggravated owing to the lack of banking facilities and a tradition of saving.<sup>3</sup>
- (viii) *The excessive love of litigation.*—This characteristic of the Indian ryot, amenable as it is to treatment and cure by better education, is undoubtedly one of the causes, although a minor one, of indebtedness.
- (ix) *The improvidence and extravagance of the ryot.*—It is possible

<sup>1</sup> cf. 'One peculiar feature of agricultural indebtedness is that it is in most cases a mark of distress, whereas in the case of other industries, borrowed finance is a normal feature. As the loans are mostly for unproductive purposes, the pressure of indebtedness falls very heavily on the ryot. . . . A high debt does not necessarily imply substantial assets leading to increased productivity. Therein lies the tragedy of agricultural indebtedness.' —*Report of the Bengal Banking Enquiry Committee*, par. 104.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, par. 81.

<sup>3</sup> See *Report of the Burma Banking Enquiry Committee*, par. 113.

to explain the improvidence and extravagance of the ryot by attributing them to the tyranny of social customs, his lack of education and the speculative character of his calling, which endows him with the mentality of a gambler; but it is not possible to deny their existence and their effect in the direction of aggravating indebtedness. Although the Indian peasant normally lives a most frugal and abstemious life, he is undoubtedly apt to carry his expenditure on special occasions to extravagant limits. The Deccan Riots Commission (1875) do not, however, agree that extravagant expenditure on marriages, etc., is a primary cause of indebtedness. Let us quote their words: 'Undue prominence has been given to the expenditure on marriage and other festivals as a cause of the ryot's indebtedness. The expenditure on such occasions may undoubtedly be called extravagant when compared with the ryot's means, but the occasions occur seldom and probably in a course of years the total sum spent in this way by any ryot is not larger than a man in his position is justified in spending on social and domestic pleasures. The expenditure by itself rarely appears as a nucleus of his indebtedness . . . The constantly recurring small items of debt for food and other necessities, for seed, for bullocks, for the Government assessment, do more to swell the indebtedness of the ryot than an occasional marriage.' The Bengal Banking Enquiry Committee endorse this view (par. 95).

That expenditure on marriage and social and religious ceremonies is one of the causes of debt cannot be denied, although relatively to other unproductive purposes, it is not so important as is sometimes imagined. We must, however, not forget that instances are not wanting of heavy debts having been contracted on these occasions from which the borrower has never been able to extricate himself. Moreover, the standard of expenditure on such occasions in rural areas has latterly been distinctly on the increase.

(x) *Ancestral debt*.—The Deccan Riots Commission expressed the view that the chief cause of the existing indebtedness was ancestral debt, debt being passed on from father to son, generation after generation, without any equitable restrictions. The crushing burden of ancestral debt is due to the ryot's ignorance of the legal position that the debts of a deceased person only pass to his heirs when they succeed to the deceased debtor's property and only to the extent of such property. It is also due to the force of tradition which makes the ryots regard hereditary debt as a debt of honour which it is a moral and pious obligation to discharge. The ryots need to be instructed with regard to their rights and induced to use them. The enactment of a simple Insolvency Act suited to rural conditions should also be carefully considered. As the Agricultural Commission remarked: 'No one desires to see a wholesale resort to insolvency and no one, we trust, desires to witness a continuation of a system under which innumerable people are born in debt, live in debt, and die in debt, passing on their burden to those who follow.'<sup>1</sup> This recommendation

<sup>1</sup> *Agricultural Commission Report*, par. 367. See also *Report of the Bombay Banking Enquiry Committee*, par. 56.

was endorsed by the Central Banking Enquiry Committee, who suggested certain special provisions in the proposed Rural Insolvency Act.<sup>1</sup> Certain provisions in debt relief legislation in some provinces declare the agriculturist debtor insolvent in cases where his assets fall short of his liabilities (see §§ 10 and 11 below).

(xi) *The modern change in the cultivator's economic position.*—With the establishment of the Pax Britannica and the development of a strong and stable rule added to a definite assessment of land, better communications, growth of towns and high prices, the value of land increased and the capacity to borrow on the strength of it. While it served to mitigate distress, it led to a rapid increase of mortgage debt. Further, the brief spells of exceptional prosperity, such as that initiated during the cotton boom of the sixties owing to the American Civil War, and again during and some time after the First World War, had on the whole a demoralizing effect on the ryot. Prosperity is as much a cause of debt as insecurity of harvest. 'With prosperity the necessity to borrow may be less, but the opportunity is greater and wants are as much dictated by the one as by the other.'<sup>2</sup> Especially when the prosperity owes little to the efforts of the cultivator, its effects on the character of the illiterate and uneducated ryot are apt to be injurious, for it leads to the evils of drink, dissipation, gambling, bribery and extravagance, or reckless and disastrous investment in land. It leads to a rise in the standard of living—in itself a desirable result, but when it has been too sudden and is followed by periods of scarcity and depression, the standard cannot be immediately accommodated to the change in the circumstances, and leads to a growth of indebtedness.<sup>3</sup>

(xii) *The money-lender and the system of usury.*<sup>4</sup>—Money-lending has always existed in India as in other countries, but in pre-British days there were two restraints on the money-lender, namely, the existence of a vigorous village community which made unconscionable bargains with the isolated cultivator by the money-lender difficult, if not impossible, and the apathy of the state towards recovery of loans, a function that used to be performed by the village panchayats which settled questions of arrears, etc., equitably, promptly and summarily. Under British rule these checks were largely removed. The disintegration of the village community weakened the position of the cultivator, and the money-lenders and land-grabbers fully utilized their opportunity, their superior shrewdness and resources to exploit the cultivator. The establishment of

<sup>1</sup> *Report*, par. 93.

<sup>2</sup> In the Introduction to the fourth edition of his *Punjab Peasant*, Darling cites fresh evidence from Africa and southern Asia in support of his thesis that prosperity as much as poverty causes debt unless the peasant learns the proper use of money which he can best be made to do as a member of a good co-operative society.

<sup>3</sup> For an excellent discussion of this topic, see Darling, *op. cit.*, chapters x & xi.

<sup>4</sup> For a comprehensive account of the various types of money-lenders who supply rural finance and their methods of business, see *Report of the Central Banking Enquiry Committee*, ch. vii.

civil courts to administer a new system of civil justice based upon the ideas of *laissez-faire* and contract, and an elaborate and complicated procedure tipped the balance further against the ryot. Owing to excessive pressure of work, the judges of the civil courts followed the line of least resistance and favoured a rigid and literal application of the law without attempting to go behind the bond. Being also generally town-bred and therefore ignorant of rural conditions, they played easily into the hands of the astute sahuکار. Sale of the mortgaged land for the satisfaction of debt under a civil decree became an ordinary expedient instead of the exceptional resort that it had been in the pre-British period.

The high interest rates and the system of compound interest led to the exploitation of the ryot who 'was as easily shorn of his gains as the sheep of its fleece' (Darling). In pre-British days, custom generally limited compound interest to 50 per cent for cash and 100 per cent (*damdupat*) for grain. No such restriction was recognized under British rule, and interest accumulated without limit and was allowed by the courts. Decrees were often obtained *ex parte* through the collusion of the sahuکار with the corrupt and underpaid establishment of the court. Thus, with the decline of the village community, the establishment of civil courts and increase in the value of land as security, the uncontrolled supremacy of the money-lender began, and the series of famines in the latter half of the last century put the cultivator entirely at his mercy. The facilities for the recovery of debt provided by the civil courts and other factors had given rise to an inferior class of money-lenders not susceptible to the code of honour of the older class of respectable sahuکار; and generally speaking, the old customary human relations between the ryot and the money-lender were changed into legal relations of creditor and debtor with no other tie than the cash nexus between them. There is little wonder therefore that land began to pass, on an alarming scale, from ryot to sahuکار and, particularly in Bombay and the Punjab, the peasant proprietary tenure began to degenerate into a 'Marwari tenure' and the 'cultivator capitalist' began rapidly to evolve into a 'sahuکار's serf'.

The expropriation of the cultivator by the money-lender generated agrarian discontent and hatred of the money-lender which resulted in murderous uprisings of the exasperated peasants such as the Sonthal rebellion (1855), the Deccan riots (1874) and the riots of Ajmer (1891).

From the above description of the money-lender, we must not allow ourselves to infer that he is an unnatural monster of cruelty and inhumanity. He shares the weaknesses as well as the virtues of ordinary human beings, though the condition of the peasantry among whom his lot is cast is such as to call his weaknesses more than his virtues into action. The risks he undertakes are many and great owing to the ignorance, improvidence and irregularity of the cultivators, and therefore the high interest he charges is largely an insurance against them. Moreover, the money-lender himself is suffering from shortness of capital, and his expenses of collection and management of loans given to innumerable small borrowers

are much higher than the similar expenses of, say, a joint-stock bank. The lack of education and the conservative habits of the people as well as the semi-monopolistic position of the money-lender account for the high rates of interest charged by him.<sup>1</sup>

In justification of the sahukar's high rates of interest it has further been urged that the unpopularity of his calling must be allowed for. Moreover, there being no other opening for his capital, lending is the only use he can make of it. The need of the agriculturist for loans is imperative, and the money-lender is practically the only person to satisfy it. If, in these circumstances, he often drives hard bargains and abuses the great power he enjoys, this is only human nature. 'To censure him is to censure the imperfections of mankind. We should rather blame the system than the man it has moulded.'<sup>2</sup>

Until a better system of credit fully meeting rural needs is evolved, the money-lender cannot be dispensed with. While trying to curb the money-lender in every possible way whenever his dealings appear to take an undue advantage of the necessitous position of the cultivator, we must not be blind to the useful part he plays at present in the rural economy. The money-lender is the only oasis of thrift in a desert of improvidence and extravagance, and is the very foundation of the simple system of Indian rural economy and a fount of ever-ready credit on which the villager can draw for all his needs. He serves the village in a variety of ways other than as supplier of credit. He is, for example, usually also a grain dealer, and is in this capacity particularly useful in times of famine and drought, when he issues grain and helps the village to tide over difficult times. 'Down with the money-lender' would therefore be a silly battle-cry. Even under any other conceivable scheme of rural credit, such as co-operative credit societies or land mortgage banks, it would be an immense advantage to make the money-lender an integral part of the new credit institutions and to induce him to make his knowledge and his capital available through these new organizations.

(xiii) *The land revenue policy*.—There are many persons who, like the late R. C. Dutt, regard the heaviness of the land tax together with the rigidity of its collection as one of the causes of rural indebtedness. They contend that there has been an increase in the amount of land revenue in spite of many years of famine or a partial failure of crops and the diminishing yield of land in many parts of the country. The Famine Commission of 1901 seemed to support this view when they said: 'In good years the cultivator has nothing to hope for except bare subsistence and in bad years he falls on public charity.' The Famine Commission of 1880, on the other hand, made the following observation in this connexion: 'The fact that landowners, who have no land revenue or only a light quit-rent to pay, are often also deeply embarrassed proves . . . that the payment of

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, par. 114.

<sup>2</sup> Darling, op. cit., p. 197.

the land revenue is not the main cause of the debt. If a man spends all his income on himself and borrows to pay his rent or taxes, it can hardly be said that his indebtedness is due to the fact of his having rent and taxes to pay, when these charges bear so light a proportion to income as the land revenue does to the gross out-turn of the land.<sup>1</sup> The ryot often borrows for paying Government assessment. But land revenue cannot for this reason alone be called a cause of indebtedness any more than seed and food for which also the ryot may have to borrow.

It would, however, be quite fair to attribute the condition of indebtedness to land revenue, if and when it can be shown to have operated oppressively, either by reason of the heaviness of the levy or of lack of elasticity in its collection. That the land revenue system has sometimes erred in these directions is admitted even by those who are not prepared to concede that rural indebtedness is to any extent chargeable to the land tax. Talking of the Punjab, for example, M. L. Darling admits that, although with the advent of British rule the land revenue demand was lowered and converted from kind to cash, it was not at first lowered enough to suit the less elastic system of collection.<sup>2</sup> He goes on to argue, however, that though land revenue is 'often an occasion of borrowing', it 'is not a primary cause of debt'. But this is distinction without difference. The distinction between original and aggravating cause does not appear to be scientific. What we want to know is whether an alleged cause is a real cause. A person may be already burdened, say, with ancestral debt, and he may aggravate his indebtedness by borrowing for extravagant expenditure on a marriage ceremony but this should not debar one from describing the expenditure on the marriage ceremony as a cause of indebtedness. All borrowing which is due to the perversity of the ryot himself, or the unjust exactions of the sahuکار, or occasionally of the Government themselves, whenever their land revenue policy is too harsh, must be regarded as a cause of indebtedness. Further, it is argued that the reduction of land revenue would not reduce debt because 'every blessing is neutralized by an increase of population'.<sup>3</sup> Now this may or may not be a good reason for reducing the burden of assessment, but it certainly does not afford a valid ground for holding that heavy assessment cannot be considered a cause of debt. The argument we are criticizing does not really deny that the land revenue may be a cause of indebtedness; it merely suggests that if it is removed, another cause, namely, increase of population, will supervene. Unrestricted breeding may neutralize the beneficial effect of the abolition of an oppressive system of taxation, as indeed it may neutralize the effect of the removal of any abuse whatsoever, but this does not prove that a heavy land tax is not a *vera causa* of indebtedness. There have been periods during which it has by universal acknowledgement been excessive, for example, in the Deccan so long as the Pringle Settlement

<sup>1</sup> *Famine Commission Report* (1880), p. 132.

<sup>2</sup> See Darling, *op. cit.*, p. 219.

<sup>3</sup> *ibid.*, p. 221.



was in force. Again, in working the system of suspensions and remissions, a proper understanding of the ryot's position has not always been displayed. Even at the present time, in spite of numerous amendments and improvements which the land revenue system as a whole has undergone, individual cases of unduly harsh treatment, for which there is no effective system of obtaining redress, can be shown to occur.

In so far as these defects have been operative in the past and still persist, it is not unreasonable to include them among the causes of indebtedness. However, having regard to the fact that the land revenue amounts to perhaps one-seventeenth or less of the total rural indebtedness and further bearing in mind that not the whole of the levy can be considered as a removable cause of the indebtedness, only a minor place can be assigned to it among the causes of the evil we are diagnosing. It need scarcely be pointed out that this is not to say that the present land revenue system is free from defects.<sup>1</sup>

§5. State policy regarding rural indebtedness.<sup>2</sup>—We may now review the measures adopted by the Government to tackle this problem which was forced on public attention in the early seventies of the last century. The question was discussed from time to time by the Deccan Riots Commission and the Famine Commissions of 1880 and 1901 and formed the staple of the debates and dispatches on the Deccan Agriculturists' Relief Bill (1878), on the Takkavi Loans Act (1882-3), the Agricultural Bank Scheme (1884), Nicholson's Report (1897), the Punjab Land Alienation Bill (1899) and the Co-operative Credit Societies Bill (1903).

Sir Edward Maclagan, in his Note on Agricultural Indebtedness in India, classifies the measures taken by the Government under four heads as follows: (i) measures taken to encourage the avoidance of unnecessary debts; (ii) measures for the improvement of the civil law in connexion with agricultural debts, including measures to regulate money-lending; (iii) measures for restricting the alienation of land; and (iv) measures undertaken with the object of providing or maintaining credit or reducing debt. To these we may add (v) measures for debt conciliation and liquidation. These may be considered after (ii).

§6. Measures to avoid unnecessary debts.—Under this heading we may mention efforts made to popularize primary education in rural areas to enable the ryots to take a more businesslike view of their indebtedness and to

<sup>1</sup> Mere growth of indebtedness cannot, however, be used as an argument to show that agriculture does not pay and that land revenue is oppressive. On the contrary, 'the existence of debt borrowed on the security of the land is itself evidence that the land is good security. The extent of the debt is an indication of the value of the security'. *Bardoli Report*, par. 119.

<sup>2</sup> See S. C. Ray, *Agricultural Indebtedness in India and its Remedies* (Calcutta University), *Statutory Report on Agricultural Credit by the Reserve Bank of India* (1937), C. F. Strickland, *The Relief of Agricultural Debt* (1938), K. G. Sivaswamy, *Legislative Protection and Relief of Agriculturist Debtors in India* (1939), and N. G. Abhyankar, *Provincial Debt Legislation* (in relation to rural credits) (1940).

meet the money-lender on a more equal footing. Education, however, remains woefully deficient both as regards quantity and quality. All the other measures taken by the Government to increase the resources of the agriculturist may logically appear under this heading, but a good many of them have already been discussed in previous chapters. Suspensions and remissions of assessment in years of scarcity have also been granted as partial remedies. Village post office savings banks have been started to inculcate habits of saving and thrift among the people. But these facilities need to be far more widely extended than at present to produce an appreciable effect in promoting thrift and in gathering together the little savings of the ryot for fruitful employment.

§7. Measures for the improvement of the civil law.—As we have already seen, the original policy of *laissez-faire* had to be abandoned by the Government as it unduly disturbed the old balance between creditor and debtor,<sup>1</sup> and it was found necessary to 'take back many of the weapons inconsiderately placed in the money-lender's hand and shown to have been misused . . . and to substitute for the blind and ruthless operation of legal machinery the intelligent dispensation of justice between man and man'.<sup>2</sup> In achieving this object, however, it is of the utmost importance as well as difficulty to guard against the possibility of violent interference with the legitimate business of the rural banker, leading to a disastrous contraction of credit. The *sahukar*, far from being hindered, should be assisted by the law in recovering his reasonable claims. The ryot, no doubt, should be protected from extortion and oppression but at the same time he should be constrained to pay his just debts to the full extent of his means. To protect the ryot, several alterations were made in the Code of Civil Procedure in the matter of executing decrees against agriculturists. For example, agricultural tools and implements, and cattle necessary for tillage, and the materials of the agriculturist's house were exempted from attachment or sale; the agriculturist debtor was also exempted from arrest for a decree of the court and was given the concession of repayment of his debts by instalments.

The Deccan Agriculturists' Relief Act of 1879 was passed on the recommendation of the Deccan Riots Commission of 1875 appointed to inquire into the riots in certain districts of the Deccan, a feature of which was a violent attack on the money-lenders by their oppressed debtors. The Act abolished imprisonment for non-payment of debt, allowed the courts

<sup>1</sup> It may be readily granted that the changes which came with the advent of British rule, such as better-defined rights of property, a more complete recognition of the force of contracts and a stricter enforcement of them through the civil courts, are marks of a transition from a less to a more advanced social organization. But so far as most of the cultivators were concerned, these changes were immediately disastrous to them as they were not sufficiently advanced either as regards education or economic condition to benefit by them.

<sup>2</sup> Sir T. Hope's speech in the Governor-General's Council on the Deccan Agriculturists' Relief Bill (1879).

to go behind the contract and to modify it in favour of the agriculturist so as to reduce an oppressive rate of interest, to prevent sale of land unless specifically pledged and to restore the land to the cultivator even when there was a sale deed between the two parties. The Act made it obligatory on creditors to furnish accounts and grant receipts, and required mortgages by agriculturists to be in writing. The period of limitation, which since 1859 had been three years only, was extended in the case of suits against agriculturists to twelve years, if the suit was based on a registered deed, and to six years otherwise. Though the Act was well-intentioned it has, on the whole, been found to be ineffective and even positively injurious.<sup>1</sup> It has increased litigation and disturbed the structure of normal credit by introducing uncertainty into the transactions between ryots and sahkars; it has led to an abuse of the concessions by the cultivators and made the money-lender more guarded and exacting in his dealings with them, thus increasing the difficulty of borrowing. The definition of 'agriculturist' is also too wide, and it is often abused for the benefit of persons for whom it was not intended, and makes it possible for them to dodge the courts and defeat honest creditors. According to the Famine Commission of 1901, there was positively room for holding that transfer of property both by sale and mortgage had become more frequent since the Act was passed. Radical changes in the Act have been suggested so as to make it workable and truly beneficial to the agriculturist.<sup>2</sup> Several witnesses before the Bombay Banking Enquiry Committee urged its total abolition, pointing out that the Usurious Loans Act of 1918 and the courts' inherent power to grant relief from unconscionable bargains make the Act superfluous. That Committee, while suggesting that the Usurious Loans Act should be utilized more than is being done at present, held the view that it cannot entirely replace the Deccan Agriculturists' Relief Act. They recommended therefore that the latter Act should be repealed and replaced by a new Act containing a few provisions to safeguard the interests of only small and genuine agriculturists.<sup>3</sup>

The Bombay Money-lenders' Bill (1938) seeks to regulate money-lending in a more thoroughgoing manner than is provided for under the Deccan Agriculturists' Relief Act (see §8 below). The Bombay Agricultural Debtors' Relief Act (Amendment) 1941 provides for the repeal of the Deccan Agriculturists' Relief Act, 1879, on the establishment of a Debt

<sup>1</sup> 'Looked at retrospectively, the D. A. R. Act is in the main a rural Money-lenders' Act. Like the modern Money-lenders' Acts—which derive a great deal from it—the D. A. R. Act seeks to regulate the general structure within which the rural credit machinery shall operate. This is also what may be called the operative part of the Act. Where the Act goes beyond the general aim, its provisions have remained a dead letter.'—D. R. Gadgil's Foreword (pp. i and ii) to K. G. Sivaswamy, *op. cit.*

<sup>2</sup> See also *Agricultural Commission Report*, K. S. Gupte's Memorandum, Minutes of Evidence; vol. II.

<sup>3</sup> See *Report of the Bombay Banking Enquiry Committee*, pars. 239–40.

Adjustment Board under the Act for any area in the province (see §11 below). Under the Bombay Agricultural Debtors' Relief Act, 1947, the courts are empowered to declare the debtor insolvent if his assets are such that liquidation of the debt in twelve instalments is not possible.

As another instance of the alteration of the civil law, mention may be made of the Act of 1899, by which certain changes were made in the Contract Act, and the scope of the term 'undue influence' was extended so as to cover all cases in which unfair advantage was taken of his dominating position by the *sahukar*. Whenever the transaction was apparently unconscionable, the burden of proving absence of undue influence was thrown on the money-lender. The Usurious Loans Act, as consolidated and amended in 1918, aims at determining the legal and maximum amount of interest recoverable, reducing the rate of interest chargeable and fixing a maximum rate of interest. (The Act applies to all persons, whether agriculturists or non-agriculturists.) 'An important feature of the Act is that the court once seized of a case may, of its own motion, re-open old transactions and inquire into the equity of the terms. The Act was amended in 1926 to include cases in which either party to a mortgage seeks relief. Where the debt is unsecured, the debtor can draw the creditor into court and, therefore, into the sphere of this Act, by the simple expedient of refusing to renew his loan.'<sup>1</sup> The Agricultural Commission and some of the provincial Banking Enquiry Committees held that the Act was practically a dead letter. Its failure has been attributed to 'the lack of an obligation binding the overworked Munsifs to use it, to the lack of a prescribed rate of interest, to the debtors' ignorance of law, or even to an excessive regard for the sanctity of contracts which were substantially unfair'.<sup>2</sup> During the years 1933-9, several provinces (Bengal, Assam, the Central Provinces, the Punjab, the United Provinces, the North-West Frontier Province, Madras, and Bihar) amended the Usurious Loans Act (1918) making it incumbent upon a court of law to re-open the account and reduce the rate of interest as prescribed in the amending Acts. The Bombay Money-lenders' Bill (1938) contained a similar provision.

§8. Legislation regarding licensing and control of money-lenders.—In several countries measures have been taken to regulate the business of money-lending, because the power which money-lenders have over borrowers is only too apt to be abused. This is especially the case with regard to unscrupulous money-lenders, particularly among petty money-lenders who have no status to maintain. The number of such persons and the degree of their sharp practice depend upon the degree of the backwardness of the community among whom their operations are conducted. The Royal Commission on Agriculture commended the principles underlying the Punjab Regulation of Accounts Bill (passed into an Act in 1930) and the British Money-lenders' Act of 1927 to the consideration of provincial Government.<sup>3</sup> The English Act provides for the taking out of licences

<sup>1</sup> *Agricultural Commission Report*, par. 365.

<sup>2</sup> Strickland, *op. cit.*, p. 10.

<sup>3</sup> *Agricultural Commission Report*, par. 366.

by money-lenders, prohibition of compound interest, supply of information and copies of the relevant documents relating to the state of loan on demand by the borrower. The various Provincial Banking Enquiry Committees were not unanimous as regards the expediency of licensing money-lenders, while most of them favoured legislation on the lines of the Punjab Regulation of Accounts Act. The Central Banking Enquiry Committee did not favour either a compulsory or a voluntary system of licensing money-lenders. Licensing of money-lenders has been objected to on the ground that the illiterate class of borrowers in the country cannot afford to lose the goodwill of the creditors on whom they are dependent, that there is difficulty in defining the term 'money-lender' and that there is little use in passing legislation which on account of the strong position of the money-lender can be easily evaded. On the other hand it has been rightly pointed out that licensing and registration of money-lenders are essential for the enforcement of any regulation of professional money-lenders and that there is no valid reason for any resentment by them having regard to the fact that the principle of registration and licence is applied to the members of one of the most respected of professions, namely that of law.<sup>1</sup> In recent years the adoption by provincial Governments of the policy of granting relief to and protecting the agriculturist debtor who was hard hit by the slump in prices during the depression has resulted in several enactments for the registration and licensing of money-lenders, and regulation of money-lending in the interest of the borrower.<sup>2</sup> In Bombay the Money-lenders' Bill (1938) was referred to a Select Committee but did not become law. Orissa enacted similar legislation in 1939. A Bill to regulate money-lending in a more thoroughgoing manner became law in Bengal in 1939. The Usurious Loans Act (1918), as already pointed out, has been amended in several provinces.

As it is not possible here to review each of the several provincial Acts and Bills separately, we shall only indicate their main features: (i) definition of money-lenders, (ii) registration and licensing of money-lenders, (iii) regulation of accounts, (iv) regulation of interest and (v) miscellaneous provisions.

(i) *Definition of money-lenders.*—Provincial legislatures have not found it easy to define a money-lender. In some Acts (Assam, Bengal

<sup>1</sup> See *Reports of the Bengal* (par. 320) and *Central Provinces* (pars. 178–80) *Banking Enquiry Committees*.

<sup>2</sup> The relevant Acts for the various provinces are as follows:—

(i) *The Punjab*: The Regulation of Accounts Act, 1930; Relief of Indebtedness Act, 1934; Debtors' Protection Act, 1936 and Registration of Money-lenders' Act, 1938. (ii) *Bengal*: Money-lenders' Act, 1933. (iii) *Central Provinces*: Money-lenders' Act, 1934; Reduction of Interest Act, 1936; Protection of Debtors Act, 1937. (iv) *United Provinces*: Agriculturists' Relief Act, 1934; Encumbered Estates Act, 1934; Regulation of Sales Act, 1934. (v) *Assam*: Money-lenders' Act, 1934. (vi) *Madras*: Debtors' Protection Act, 1934; Agriculturists' Relief Act, 1938. (vii) *Bihar*: Money-lenders' Act, 1938. (viii) *Orissa*: Money-lenders' Act, 1939. For an instructive review of these Acts, see Sivaswamy, op. cit., and Abhyankar, op. cit.

and Bihar) the definition is rather broad. The usual phrase is one who 'advances a loan in the regular course of business'. The general object is to regulate private money-lending which is not organized, unlike money-lending by Banks, Co-operative Societies and the Government.

(ii) *Registration and licensing of money-lenders*.—The money-lender is required to register himself and obtain a license in the Central Provinces, Bihar and the Punjab. The Bombay Money-lenders' Bill makes a similar provision. The Bengal Money-lenders' Act (1939) and the U.P. Money-lenders' Bill (1939) made similar provision. The annual licence duty as prescribed by the Bombay Bill varies according to the capital employed by the money-lender, being Re. 1 when the capital does not exceed Rs. 2,000 rising to Rs. 1,000 when it exceeds Rs. 10 lakhs. Provision is made for the cancelling of licences under certain circumstances such as dishonesty on the part of the money-lender. The penalty to the money-lender for not taking out a licence is the withholding of the assistance of the courts in enforcing his claims, as in Bihar, the Punjab, Bengal and the U.P. In the Central Provinces the money-lender is liable to a fine. Time for making good the defect is allowed in Bombay, on payment of a penal licence fee. The enforcement of registration of numerous money-lenders, especially in a province like the Punjab, is not an easy task. Even in England unlicensed persons are from time to time detected. The device of lending through a man of straw, as in Zanzibar, can be adopted without fear of frequent detection. The 'law merely enables an honest money-lender to offer *prima facie* evidence that he is honest'.<sup>1</sup> A system of state inspection and supervision of money-lenders' activities as in the U.S.A. may ensure better enforcement of the law.

(iii) *Regulation of accounts*.—Under the various provincial enactments controlling money-lending, the money-lender is required to maintain regular account books and to furnish each debtor annually, or six-monthly, with a legible statement of accounts signed by himself or his agent in respect of each loan transaction, showing the outstanding amount of principal and interest and the amount of every payment received from the debtor. In Assam and Madras this statement is to be supplied only on the debtor's demand. The debtor is not, however, bound to admit correctness of accounts as furnished by the creditor. The money-lender is also required to pass receipts for payments received. The usual penalty for failure to maintain proper accounts is the loss of interest (wholly or in part) found due, and also of costs of suits for the recovery of arrears. It is generally thought that these penalties are light and can hardly be deterrent. Non-suiting of the creditor can be the only effective penalty. The entry of a fictitious amount in excess of the actual amount loaned has been declared an offence which is punishable with a fine in Assam, Bihar, Orissa, Bombay, and the United Provinces. The Punjab Act provides for dismissal of the suit.

It is interesting to review the results of the provisions relating to the maintenance of accounts. It is found that the relevant sections have proved a dead letter in the U.P. Similar is the experience in the working of the provisions of the Deccan Agriculturists' Relief Act. In the Central Provinces, it is found that the debtor seldom pleads the fact, in a court of law, of his not having received receipts or accounts. In the Punjab, where legislation of this type was first introduced, the village money-lenders generally disregard these provisions. Consequently there has firstly been an increase in the number of contested cases, and secondly the money-lender tries to settle disputes outside court as he knows that he will not be allowed interest and costs, having failed to keep accounts. 'Legislations of this type are educative instructions rather than penalizing laws. Such instructions are better carried out by inspection and audit. The best of legislations to regulate money-lending may be neutralized by the necessities of the debtor and the greed of the creditor.'<sup>1</sup>

(iv) *Limitation of rates of interest.*—The various Acts prescribe the maximum rates of interest that can be charged, distinction being made (except in Madras) between secured loans and unsecured loans. Higher rates of interest are allowed on unsecured loans. Compound interest is prohibited in the Bombay Bill, and in Bihar and Assam.

Province	Secured		Unsecured	
	Simple interest	Compound interest	Simple interest	Compound interest
Madras	6½	..	6½	..
Bombay (Bill)	9	prohibited	12	prohibited
Bengal	15	10	25	10
Punjab	12	9	18	14
Bihar	9	prohibited	12	prohibited
Orissa (Bill)	9	prohibited	12	prohibited
Central Provinces	7	5 with yearly rests	10	5 with yearly rests
Assam	12½	prohibited	18½	prohibited

The above table indicates at a glance the position regarding rates of interest prescribed by law in the various provinces.<sup>2</sup> The United Provinces have adopted a novel arrangement, namely notification by the Government from time to time of the interest allowed in consonance with the conditions of the money market in relation to loans incurred prior to the Agriculturists' Relief Act of 1934. On loans subsequent to the

<sup>1</sup> Sivaswamy, op. cit., pp. 182-3.

<sup>2</sup> See paper on 'Legislation for the Relief of Indebtedness' read by Professor C. N. Vakil at the Indian Economic Conference (1938).

Act, the rate of interest varies according to the amount of the loan, being lower as the amount is larger. This arrangement provides for a reasonable element of elasticity, which is lacking in the other provincial Acts.

In this connexion it may be noted that most of the provinces (Assam, Bengal, Bihar, the Central Provinces, Madras, the Punjab, and the United Provinces) have adopted the old Hindu rule of *damdupat*, which appeals to the Indian mind and has been embodied in more recent debt legislation including the Bombay Money-lenders' Bill (1938). According to this rule, interest on a loan is not to exceed the principal. The interpretation of the rule is not, however, easy in the case of a running account, and the phraseology of the various Acts is not uniform. This rule may be welcomed in so far as it leads creditors to sue the debtors within a reasonable time.

The great disparity of interest rates as prescribed in the various provincial Acts reveals the divergence of conditions in the money market in the different parts of India and the imperfect control of the money market by the Reserve Bank of India. Limitation of the rate of interest has appealed to many governments in the past, but it is very difficult to enforce in practice. In those cases where the legal rate of interest is not adequate to cover the risk involved in the grant of a loan, or where the borrower is a needy person or again where the lender is unscrupulous, the law may be evaded either by an agreement in favour of a higher rate of interest out of court, or by entering a fictitious large loan at the legal rate of interest. Reports on the working of debt legislation in Bengal and the United Provinces emphasized that the enforcement of the maximum rate of interest has been found very difficult in practice. Bonds are usually over-written by creditors and the punishment provided under the Usurious Rates Schedule has not proved a deterrent. At the same time it should be remembered that the main purpose of this schedule is educative rather than preventive. Vigorous educational propaganda for acquainting ignorant cultivators with the existence of legislative safeguards, which are intended to protect them, is necessary.<sup>1</sup> The legal rate of  $6\frac{1}{4}$  per cent (simple interest) on all future loans prescribed by the Madras Agriculturists' Debt Relief Act of 1938 (see §11 below) appears to be too low to ensure adequate supply of credit and does not even allow for the distinction between secured and unsecured loans. The local Government has, however, been allowed by the Act to declare a higher rate having regard to the fact that even co-operative societies (other than Land Mortgage Banks) are charging rates of interest higher than those prescribed by the new Madras Act.

(v) *Miscellaneous*.—Finally, the provincial enactments regulating money-lending and seeking to protect agriculturist debtors contain provisions which forbid molestation and intimidation of debtors (e.g. in the Central Provinces Act, Bombay, Bengal, and U.P. Bills) and prescribe punishments for this offence. Exemption of a part of the holding from



attachment and sale in execution of a decree of the court as in the Punjab, Bihar, the United Provinces and Bombay,<sup>1</sup> grant of instalments as in the Central Provinces and the United Provinces, Bihar (in the case of mortgage suits) and Bombay, restriction of usufructuary mortgages to a reasonable number of years and permission to the debtor to redeem certain old mortgages, as in the United Provinces, are other forms of relief granted to the agriculturist debtor.

Rural debt legislation as outlined above and relating to debt conciliation and reduction (see §§10–11 below) has a certain tendency to restrict the supply of credit in the rural areas. According to reports received there is already such a tendency in evidence. 'In areas where such legislation is in force it is said that money-lenders have discontinued lending except to old and trusted clients, and have restricted their loans to a minimum.'<sup>2</sup> This will not, however, be an unmixed evil if it teaches the cultivator to live within his means and creates a demand for more co-operative credit societies. Moreover, legislation regulating money-lending must not be judged by this temporary result. Honest money-lenders have nothing to lose from enactments intended to protect illiterate and needy debtors from the malpractices of unscrupulous money-lenders. Further, capital now used in money-lending must find a use, and there are not many alternative channels of remunerative investment available to the money-lender. For many years to come there will remain a wide field for honest business in supplying the legitimate needs of agricultural operations.

§9. Debt conciliation and liquidation.—The Central Banking Enquiry Committee suggested that a serious effort should be made to find a remedy for the chronic indebtedness of the agriculturist, so far as it relates to unproductive debt. In their opinion the most effective remedy would be found in the pursuit by provincial Governments of a vigorous policy of debt conciliation on a voluntary basis. For this purpose special officers should be appointed in each province whose function would be by propaganda to persuade the lender and the borrower to agree to a redemption of standing debt on the basis of a cash payment or equated payments spread over a number of years. The existing co-operative societies should be utilized as the agency for the payment to the lender by the borrower, who should become a member of the co-operative society which, in turn, should supply him with his current needs in future. The Government should have a regular programme of advances to co-operative societies for debt redemption where the lender wants a cash payment. If necessary, the whole arrangement should have the backing of a legislative enactment. In those cases where the lender refuses to agree to a voluntary settlement

<sup>1</sup> Bengal and Bihar exempt one acre of land and Bengal the dwelling house. The United Provinces has a similar but less explicit provision. The Bombay Small Holders' (Temporary) Relief Act (1938), exempts land, house, crops and cattle (owned by a "small holder", i.e. a cultivator holding land not exceeding six acres of irrigated land, or eighteen acres of other land).—Strickland, *op. cit.*, p. 23.

<sup>2</sup> *Statutory Report on Agricultural Credit* (Reserve Bank of India), par. 11.

of the debt it would be necessary to take action to secure compulsory settlement by means of a legislative enactment.<sup>1</sup>

§10. Recent debt conciliation legislation.<sup>2</sup>—The question of conciliation of rural debts was taken up by almost all the provincial Governments owing to the severity with which the slump in agricultural prices had fallen on the farmer-debtor class. The Government of the Central Provinces and Berar were the first to introduce the experiment of debt conciliation boards under the Debt Conciliation Act passed in February 1933. Their example was followed by the Punjab in 1934, when the Punjab Relief of Indebtedness Act was passed authorizing the establishment of Debt Conciliation Boards as in the Central Provinces. Bengal followed suit with its Agricultural Debtors' Act in 1935. Assam passed its Debt Conciliation Act in the same year. Madras provided for debt conciliation by the enactment of the Debt Conciliation Act of 1936. The Sind Debt Conciliation Act of 1939 also provided debt conciliation machinery.

Debt conciliation legislation in the various provinces has certain common features, although there is divergence in the detailed procedure. We may now review the main provisions of the Acts.

*Debt Conciliation Boards.*—The central idea underlying these Acts is that scaling down of debts should take place as a result of mutual agreement between the debtor and the creditor through the machinery of Debt Conciliation Boards varying in size from 3 to 9. The Boards consist of officials and non-officials and include representatives of the class of debtors and creditors respectively. The chairman is an officer from the executive or judicial service. The jurisdiction of the Boards is limited in certain provinces, e.g. in the Central Provinces only debtors who do not owe more than Rs. 25,000 may apply to the Debt Conciliation Boards. In the Punjab the limit is Rs. 10,000. In Madras the minimum limit is Rs. 100 and the maximum Rs. 25,000. Co-operative debts are differently treated in the various provinces: e.g. they may be included in the scope of debt conciliation in the Central Provinces and Madras subject to the previous approval of the Registrar of Co-operative Societies; on the other hand, co-operative debts are excluded in the Punjab. It is wiser to include them and then to discriminate between them and other debts so far as the degree of conciliation of debt is concerned. Debts due to the Government and to banks as well as trade debts are generally excluded wholly or partially or conciliation in these cases is hedged about with special conditions.

*Procedure.*—A debtor or any of his creditors may apply to the Board appointed for the area in which the debtor resides, to effect a settlement between him and his creditors or debtor respectively. Every creditor is called upon to submit a statement of debts owed to him within a specified period. Failure to do so entails a discharge of all debts owed to him.

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, pars. 91-2.

<sup>2</sup> For an interesting review of this legislation, see Sivaswamy, op. cit. and Abhyankar, op. cit.

In certain provinces, e.g. the Central Provinces, lawyers are not allowed to appear before the Boards. In others, e.g. the Punjab and Assam, they are allowed. The Board has no authority to give a decision, but has to depend only upon powers of persuasion to induce the parties to arrive at an amicable settlement. In case agreement is reached relating to a certain percentage (40 per cent in the Central Provinces) of the debts owing to the creditors, it is signed by the Board and is registered under the Indian Registration Act, and takes effect as a decree of the civil court. The instalments of the debt, as conciliated, are fixed with due regard to the paying capacity of the debtor and usually no interest is allowed on the conciliated amount. The rule of *damdupat* is generally observed.

In Bengal it was thought necessary to endow the Boards on occasions with powers for compulsion in varying degrees whenever voluntary methods fail. Another noteworthy feature of the Bengal Agricultural Debtors' Act (1935) is that it provides for a simple insolvency procedure on the lines recommended by the Royal Commission on Agriculture<sup>1</sup> for rural areas. The absence of such procedure in other provincial Acts is a handicap in those cases where there are difficulties in arranging for the payment of the conciliated debt even by a number of instalments.

*Refractory creditors.*—The various Acts provide for the issue of certificates by the Board to the debtor of a refractory creditor who refuses to accept a fair offer. Such creditors are not entitled to costs in suits for the recovery of such debts or to any interest after the date of the issue of the certificates in excess of simple interest of 6 per cent per annum on the amount due. In the Punjab the Board can grant such a certificate only when creditors to the extent of 40 per cent of the debtor's liabilities have come to an amicable settlement with the debtor; the percentage in Madras being 50. The decisions of the Boards are final and civil courts are debarred from entertaining suits regarding debts conciliated. The Board itself has, however, power to review previous orders under certain circumstances. In Bengal appeals are allowed against the awards made by the Board.

*Working of the Debt Conciliation Boards.*—The working of these Boards shows variation from province to province. In only three provinces, namely, the Central Provinces, the Punjab and to some extent in Bengal, have substantial results been achieved. A greater degree of success has attended the experiment in debt conciliation in the Central Provinces, where several Debt Conciliation Boards were established by the Government. These Boards had conciliated debts amounting to Rs. 958.69 lakhs for Rs. 479.22 lakhs, securing a remission of 50 per cent of the total claims, by the end of July 1938.<sup>2</sup> Remissions generally have been largest in the case of unsecured loans. Frequently no future interest has been

<sup>1</sup> Report, par. 367.

<sup>2</sup> Abhyankar, op. cit., p. 35. For a detailed critical examination of the working of the Debt Conciliation Boards in the Central Provinces and Berar, see article by Sir M. G. Deshpande in *The Indian Co-operative Review*, January-March, 1939, pp. 65-70.

allowed on the reduced amount of debt. The Debt Conciliation Boards in the Central Provinces were scrapped under the new Act of 1939 (see below §11 (ii)). Similar results have been achieved in other provinces, such as the Punjab, Bengal, and Assam. The working of the Boards in Bengal has not been smooth and is characterized by long delays. In that province it was estimated that debts of about Rs. 5 crores had been scaled down up to 1 April 1939. The operation of the Boards has revealed certain defects. For instance, the provision in the Punjab Act requiring creditors, to whom there is owing not less than 40 per cent of the total debt, to agree to an amicable settlement with the debtor for the grant of a certificate to the latter has had the result that the debtors include fictitious creditors in the list so that the limit of 40 per cent may be reached. Then again, in some provinces, including the U.P., non-agriculturists, such as traders who happen to own a small piece of land and whose main income is derived from commercial pursuits, have taken advantage of the Debt Relief Acts. Genuine creditors are thus made to suffer. We have already referred to the restrictive effect on the supply of rural credit.

*Repayment of conciliated debts.*—The crux of the whole problem of debt conciliation is the arrangement for the repayment of the amount of the debt as finally settled. Although in some cases, especially in the Punjab, payment has been made in a single transaction by sale of cattle and jewellery or by a terminable lease of lands, instalments spreading over a period of 15 to 20 years are usually arranged. As Mr Strickland points out, 'the test of conciliation will come when the first few annual instalments have been paid and the sense of alleviation has worn off'.<sup>1</sup> It is obvious that the method of debt conciliation would work more successfully provided a suitable mode of repayment could be devised. Creditors would then agree to large remissions. The Land Mortgage Bank, which has the necessary technical equipment for carrying on long-term transactions on business lines (see ch. x) appears to be a very suitable agency for carrying out a programme of debt conciliation. If such a bank is prepared to advance the whole conciliated amount to the creditor he would agree to a substantial remission of his claims. Thus the need for co-ordinating the working of Debt Conciliation Boards and Land Mortgage Banks is obvious. It was the realization of this need which led the Government of the Central Provinces in 1935 to launch a system of Land Mortgage Banks, of which there are now 21 in that province.<sup>2</sup> Madras with its 111 Land Mortgage Banks has shown the most promising progress in this direction.<sup>3</sup>

<sup>1</sup> Strickland, *op. cit.*, p. 13.

<sup>2</sup> It appears that agriculturist debtors did not avail themselves of the long-term credit facilities offered by the Land Mortgage Banks as the Conciliation Boards gave maximum concessions possible in respect of the number of instalments and exemption of instalments from interest.

<sup>3</sup> The progress made by Land Mortgage Banks in the various provinces is reviewed in ch. x.

*Need for compulsion.*—There was a growing conviction in the Central Provinces, Madras and elsewhere that if conciliation of debts was to make fair progress within a reasonable time the voluntary principle must be replaced by one based on compulsion. It should be borne in mind that conciliation is an emergency measure and is analogous to a surgical operation. If it is to do any good without serious harmful reaction, it should be carried out with reasonable speed and should not be unduly prolonged. Voluntary debt conciliation does not ensure dispatch and moreover its working is apt to be uneven and uncertain. Accordingly recent legislation in Madras, the Central Provinces, Bombay and the United Provinces has provided for the compulsory scaling down of the liabilities of agriculturist debtors.

§11. Compulsory scaling down of debts.—(i) *The Madras Agriculturists' Relief Act (1938).*—It was the realization of this fact that led to the adoption of a bold policy of debt relief by the Congress Ministry in Madras, which got the Agriculturists' Relief Act through the Provincial Legislature early in 1938. The object of this measure, which is more radical and drastic than any that has been passed or contemplated in the rest of India, is to rehabilitate agriculture, the basic industry of the province, by relieving the producers of food from the incubus of indebtedness. The Act provides for the compulsory scaling down of debts as distinguished from conciliation and settlement by agreement. It offers relief to ryots without any upper limit irrespective of their capacity to repay and of the status of the creditor. The Act distinguished between pre-depression and post-depression debts. All arrears of interest outstanding on 1 October 1937 on debts incurred prior to October 1932 were wiped off, only the principal being payable. Debts incurred after that date were to be charged only 5 per cent interest up to 31 October 1937. The rule of *damdupat* was to be enforced in favour of the debtor. In case the payments were less than twice the principal only the balance had to be paid. On debts so scaled down as also on future debts incurred after the commencement of the Act the maximum legal rate of interest was fixed at  $6\frac{1}{4}$  per cent ; but it was liable to be altered from time to time by the Provincial Government. Co-operative societies and certain classes of banks were exempted from the operation of the Act. The Act also extended relief to tenants by wiping out all arrears of rent except those of the previous two years, provided these latter were paid by September 1939. The provisions of the Act could be applied also to decreed debts. Sales of moveable or immoveable property of the agriculturist could be set aside if such sales were made in execution of a decree after 1 October 1937. The enforcement of the Act was to be effected by the ordinary courts. During the period ending September 1941, more than 168,000 cases had been disposed of under the Act, involving Rs. 6,52 lakhs of debts which had been scaled down to Rs. 3,46 lakhs, i.e. by 47 per cent.

This unique piece of rural debt legislation in Madras has been the subject of numerous criticisms. In the first place, the Act does not make

any provision for the setting up of machinery with legal powers and financial resources to satisfy the claims of creditors or to relieve the debtors quickly, to pay off the scaled-down debts to the former and recover them gradually from the latter. No doubt there are several Land Mortgage Banks operating in the province, but the creditors are not compelled to receive payments through them. Further, apart from delay in the grant of loans by these banks, their resources are limited.

Another criticism is that the maximum rate of interest ( $6\frac{1}{4}$  per cent) prescribed by law is too low, especially in the case of unsecured loans, and it is said that the Act has curtailed the supply of credit even to the extent of land being left fallow in some districts. In other cases the legal rate of interest is being circumvented by the adoption of various ingenious devices, the needy borrower becoming himself an accomplice.

(ii) *Central Provinces and Berar Relief of Indebtedness Act (1939).*—This Act substitutes certain compulsory methods for the scaling down of debts in place of the mutual agreement of the old Debt Conciliation Act (1933). It scraps the machinery of Debt Conciliation Boards (in this respect it differs from the Madras Act of 1938 which retains these Boards) and provides in its place Debt Relief Courts with certain restricted appeals to the District Judge. It provides for the grant of graded relief based on the estimated fall in the value of land in respect of the principal of the debts as follows: (a) 30 per cent reduction in the case of debts prior to 31 December 1925, (b) 20 per cent in the case of debts incurred after 31 December 1925 but before 31 December 1929, and (c) 15 per cent in the case of debts incurred after 31 December 1929 but before 31 December 1931. No relief is provided for debts incurred subsequent to 31 December 1931. The payment of interest is limited to  $4\frac{1}{2}$  per cent compound interest with yearly rests, or 6 per cent simple interest on secured loans and 9 per cent on unsecured loans. Rent debts (unlike in Madras), debts due to co-operative societies and certain banks are excluded from the scope of the Act. The scaling down of debts under the new Act is more thorough than in Madras but is likely to involve more delay since this process is subject to a legal arrangement, while in Madras resort to a court of law is necessary only if the parties do not agree in the application of the law to their case. The Act provides for the transfer of land in lieu of debt.

(iii) *The Bombay Agricultural Debtors' Relief Act (1939).*<sup>1</sup>—The Bombay Agricultural Debtors' Relief Act of 1939 was put into force in 1941 as an experimental measure in a few talukas in the three divisions of the province. The Act aims at reducing the aggregate indebtedness of genuine agriculturists so as to bring it within the compass of their capacity to pay. Compulsory scaling down of the debts through specially constituted Debt Adjustment Boards, which are to work under the control of the civil courts, and subsequent arrangements for the repayment

<sup>1</sup> See Bombay Act XXVIII of 1939, *Note on Bombay Agricultural Debtors' Relief Act, 1939, and Rules issued under the Act by the Government of Bombay* (12 August 1941).

of the adjusted amount in manageable instalments constitute the essence of the whole scheme. The relief contemplated by the Act is limited to cultivating agriculturists whose debts (as on 1 January 1939) were not more than Rs. 15,000. Either the debtor or the creditor may make an application to the Board for the adjustment of his debts within 18 months from the date on which a Board is established. If the creditor fails to make an application within this period the debt becomes void and irrecoverable. The Act provides graded relief in respect of both principal and interest in the following manner. In taking accounts of principal and interest in respect of transactions prior to January 1931, interest is to be calculated at 12 per cent, or the agreed rate, whichever is lower; 40 per cent reduction would then be made in principal and interest. If the transaction commenced after 1 January 1930 but before 31 December 1930, accounts are to be made up to 1 January 1931 at 12 per cent or the agreed rate, whichever is lower, and a reduction of 30 per cent is to be allowed in both principal and interest. Interest not exceeding 9 per cent is to be allowed on the amounts so adjusted up to the date of the application. For transactions which commenced after 1 January 1931, the interest is to be calculated at 9 per cent, or the agreed rate, whichever is lower. Separate accounts would be taken of principal and interest and accumulated interest may not be debited to the account of the principal. In taking accounts the interest to be calculated would be simple interest. The amount of dues on account of interest may in no case exceed the amount of the principal due.

After the accounts are made up the next step taken by the Board is to estimate the paying capacity of the debtor as ascertained in terms of the value of his whole property, both moveable and immoveable, with certain exceptions. In the case of immoveable property, which is subject to the liability of secured debts, dues to Government and local authorities would be deducted from the value of such property. Broadly, the Debt Adjustment Boards are empowered to scale down the principal found due to 80 per cent of the repaying capacity of the debtor as indicated by the total amount of the following items: (a) If the amount of the secured debts after taking accounts is less than 80 per cent of the value of immoveable property, the difference between the amount of such debts and 80 per cent of the value of such property, (b) 80 per cent of the value of the immoveable property which is not subject to the liability of secured debts and (c) 80 per cent of the value of other assets.

The Act also makes provision for paying the creditors scaled-down amounts in the form of bonds issued to them by the Provincial Land Mortgage Bank, provided the creditors agree to scale down the total claims to 50 per cent of the assets of the debtor. In other cases the scaled-down debts may be recovered from the debtors in the form of instalments not exceeding 25 in number. A debtor whose assets are inadequate for payment of the scaled-down amount can be declared insolvent by the Board. The awards made by Boards, after having been registered by a

civil court, will be executable as a decree of the court. The Board is also authorized to order the sale of a debtor's property in liquidation of his debt if such a procedure is in his interest. No debtor who is a party to an award under this Act is allowed to alienate the standing crops or the produce of his land to the prejudice of a Resource Society or any person (including a joint-stock company or other association) authorized to advance loans under the Act under prescribed conditions without previous permission of such creditors.

(iv) *The U.P. Agriculturist Debt Redemption Act (1939).*—The U.P. Legislative Assembly passed the Debt Redemption Bill in July 1939. It authorizes the courts of law to award by way of the principal amount due, a sum which will not exceed twice the amount of the principal minus all the payments received by the creditor in the past in respect of the said transactions. Its main object is to effectively reduce the debts of small agriculturists. In the case of protected tenants, it provides that the creditors could only take possession of the landed property of the debtor as a usufructuary mortgage and could not sell it to realize their dues.<sup>1</sup>

(v) Some Indian States including Bhavnagar, Mysore and Travancore, have also adopted measures for setting up boards for the conciliation of debts. The most striking success has been attained in Bhavnagar where the debts, on being settled and very greatly scaled down, were taken over by the Durbar who have paid off the creditors. A study of the after-effects of debt redemption in Bhavnagar published in 1939 showed that about 6 per cent of the holders had incurred fresh debts amounting to 3 per cent of the total old debt. These fresh debts were for current miscellaneous purposes and were paid during the harvesting period. The debt redemption scheme has had on the whole salutary results. We should, however, do well to bear in mind that it would not be quite so easy to launch in 'British' India any conciliation scheme with the same prospects of success as in the case of the small Bhavnagar State where there was a ruler ready to wipe off arrears of land revenue and a counsellor as able and benevolent as the late Sir Prabhashankar Pattani and where sahuḱars with a realistic turn of mind were prepared to have their debts scaled down to as low a level as 25 per cent. There are inherent difficulties in a province with a much larger population and more heterogeneous creditors.

In conclusion it may be pointed out that the scaling down of debts, either by the voluntary method or one involving compulsion, aims at mitigating rather than curing rural indebtedness and has therefore a limited utility. The Reserve Bank of India in its Preliminary Report on Agricultural Credit (1936) rightly stressed the two aspects of this problem, namely the need for reducing debt and restricting credit and at the same time for increasing the earning capacity and purchasing power of

<sup>1</sup> Abhyankar, op. cit., pp. 19 and 90.



the farmer by devising various measures for rural betterment. (*Report*, par. 10.)

§12. Restrictions on the transfer of land.—Almost everywhere in India 'proprietary' and 'tenant rights' greatly increased in value during the last 40 or 50 years of the nineteenth century, causing an unprecedented expansion of the peasant's credit, which was for the most part misused. No precautions were taken to prevent an ignorant and unthrifty peasantry from borrowing recklessly on the strength of the improved security of land, which began to pass rapidly out of the hands of the cultivator. So far from desiring to prevent transfer of land, the Government seemed at first actually to welcome it. It was thought that the facility of transfer would result in land coming into the possession of cultivators with sufficient resources to exploit it fully. The authors of the Joint Report in Bombay, for example, wished special measures to be adopted to facilitate transfers, more especially as the customs of the country were adverse to transfers. The realization, however, gradually dawned on the Government that transfer of land to non-cultivating classes had reached a stage at which it was economically as well as politically dangerous, and that it was therefore necessary to restrict free alienation. Those who favoured legal restriction on free transfers of land desired it primarily for preventing the passage of land into the hands of the non-cultivating classes, though they also welcomed the secondary effect of such restriction, namely decrease of credit, as likely to diminish the rate at which debt was being contracted by the peasant class. Action was taken or contemplated in one form or another, the most outstanding case being that of the Punjab. Under the Punjab Land Alienation Act of 1901, non-agricultural classes are not allowed to buy land from a member of an agricultural tribe nor to take it in mortgage for more than twenty years. The success of the Act in preventing the expropriation of the peasant proprietor by the money-lender is undoubted. There is, however, a fly, or rather several flies, in the ointment. In the first place, the difficulty placed in the way of the educated townsman wishing to bring his capital, intelligence and enterprise to bear on the land is a handicap to agricultural progress. Such enlightened enterprise has been the principal cause of the progressive character of English agriculture. Even the agricultural classes have suffered from the inevitable contraction of credit. Another serious and unexpected evil has been the emergence of the agriculturist money-lender, and the growth of his influence. The restrictions of the Act until recently (see below) did not apply to him and he took advantage of his privileged position to expropriate his brother agriculturist in a manner as unscrupulous as that of the old money-lender. While therefore the Act has helped materially the retention of land in the hands of agriculturists, it is open to doubt whether it has appreciably diminished the evil of indebtedness.<sup>1</sup>

<sup>1</sup> See *Report of the Punjab Banking Enquiry Committee*, par. 175. A similar Land Alienation Act was passed for Bundelkhand in 1903. Restrictions on the alienation of land by aboriginal tribes exist in the Central Provinces and Bombay.

In this connexion two amendments of the Act in 1938 deserve notice. By the first of these amendments, *benami* (fictitious) transactions are declared null and void, thus seeking to prevent alienation of land to men of straw. The second amendment aims at the inclusion of the agriculturist money-lender to a certain extent in the same category as the non-agriculturist money-lender, in order to prevent the former from taking undue advantage of his privileged position under the original Act.

The Punjab Restitution of Mortgaged Lands Act, 1938, empowers a mortgagor to present a petition to the Collector praying for the restitution of possession of land mortgaged prior to 8 June 1901, subject to certain conditions. Recent debt legislation in several provinces, as already pointed out (see §8), seeks to protect the property of the borrower by the exemption of a part of the holding from attachment and sale in execution of a decree of the court and restriction of usufructuary mortgages to a reasonable number of years. Facilities are also offered to redeem certain old mortgages in the United Provinces.

§13. The supply of money and credit.<sup>1</sup>—The takkavi loans are a very ancient form of state help to the ryots in India, and the Government passed Takkavi Acts in 1871, 1876 and 1879. But no active help was rendered until after the passing of the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 as recommended by the Famine Commission of 1880. Under the former Act, long-term loans for permanent improvements on land, such as wells and embankments, were to be granted, and under the latter, short-term loans for current agricultural needs, such as the purchase of seed, cattle, manure, implements, etc. These loans have been useful to agriculturists, especially at critical times, when they have helped to mitigate the prevalent rates of interest and have served in some measure to establish a connexion between the village and the wider money-market from which the Government sometimes borrow for this purpose.

Takkavi loans, however, have never been popular. The Irrigation Commission of 1901–3 estimated the total amount so lent at Rs. 6 crores—a mere drop in the ocean. The figures relating to loans under the two Acts furnished by the Provincial Banking Enquiry Committees illustrate the very insignificant part played by the Government in the matter of supplying rural finance.<sup>2</sup> These loans are granted only for specified purposes so that the ryot, rather than imperil his credit with the money-lender from whom he can borrow for all purposes, prefers not to avail himself of the state loans unless absolutely forced to. It is impossible

<sup>1</sup> The sources from which rural financial supplies are now obtained may be conveniently mentioned here. They are: (1) Money-lenders (including sellers on credit), both professional and non-professional. (2) Indigenous bankers. (3) Co-operative organizations. (4) The Government. (5) Commercial banks, including the Imperial Bank of India, the exchange banks and the joint-stock banks. (6) Loan offices in Bengal. (7) *Nidhis* and chit funds in Madras. See *Report of the Central Banking Enquiry Committee*, par. 104.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, par. 236.

to make any system of Government loans as elastic as that of the money-lender. The rigidity in the matter of collection is another disability which makes the takkavi loan unpopular. The endless delays in distribution, the exactions of petty official underlings and the general red-tape character of the revenue agency by which it is administered are further drawbacks. The system is also extraordinarily difficult to supervise and does not go to the root of the matter in that it fails to exercise any educative influence on the character of the ryots; some would even say that it tends to demoralize them. A fundamental defect of the Land Improvement Loans Act (1883) is that no loans can be granted under it for the redemption of old debts and consolidation of holdings—the two essential pre-requisites for agricultural improvement. Under the amending Acts passed in Madras (1935) and the United Provinces (1934), loans are permissible in these provinces for redemption of old debts.<sup>1</sup> Lastly, the Government's credit and resources being limited, funds cannot be made available to the extent required. As a general means of financing agriculture the system is a failure, although in respect of specified famine tracts and backward areas it has a limited use.<sup>2</sup> The Government seem to be waking up to the necessity of amending the administration of the takkavi so as to make the procedure less rigid. In Bombay, under rules framed in 1922, the Government have availed themselves of the co-operative agency in the distribution of these long-term loans for effecting permanent improvements. The whole system of takkavi loans was passed under review (1929–30) by the various provincial Banking Enquiry Committees and the Central Banking Enquiry Committee<sup>3</sup> and several useful recommendations (for instance, the creation of a Government publicity agency) were made.

All these measures have failed to solve the main problem of indebtedness, and the provision of a suitable and cheap system of credit for agriculturists still remains a desideratum. As Mr Ewbank observes, 'no mere legislative fiat can control the working of economic law'.<sup>4</sup> The Government realized this as early as 1884 when the Viceroy in a dispatch to the Secretary of State urged the necessity of a private bank to replace the village usurer and supply cheap capital to solvent ryots. Under the inspiration of Sir William Wedderburn and M. G. Ranade, a committee of the capitalists of the Poona district was formed in 1883 with the object of establishing a bank to finance the agriculturists of the Purandhar taluka. Though the scheme was approved of both by the Government of India and the Bombay Government, it was negatived by Lord Kimberley, the

<sup>1</sup> The Government of Madras provided in the budget for 1938–9 a sum of Rs. 50 lakhs for the relief of indebted agriculturists by way of direct loans from the Government.

<sup>2</sup> See *Agricultural Commission Report*, Minutes of Evidence, vol. III, Srinivasa Achariyar's evidence; also the *Report of the Central Banking Enquiry Committee*, par. 241.

<sup>3</sup> *Report*, pars. 238–45.

<sup>4</sup> R. B. Ewbank, *A Manual of Co-operative Societies*, p. 2.

then Secretary of State, on the grounds that the bank would be virtually a Government institution, and that the Takkavi Act of 1883 and 1884, already referred to, along with the Deccan Agriculturists' Relief Act and better judicial arrangements and proper registration of titles to land, would go sufficiently far to meet the needs of the situation.

The subject of co-operative credit is dealt with in the next chapter.

§14. Report of the Agricultural Finance Sub-committee, 19 .—In accordance with the recommendation of the Policy Committee on Agriculture, Forestry and Fisheries, the Government of India appointed a Sub-committee in September 1944, with Professor D. R. Gadgil as Chairman, to report on the ways in which indebtedness could be reduced and finance, both long-term and short-term, provided under efficient control for agriculture and animal husbandry operations. The following are some of its recommendations :

(i) *Adjustment, reduction and compounding of old debts.*—The debts of such agricultural producers as have no hereditary or transferable interest in land should be taken up for compulsory adjustment on applications of the borrowers. All the debts of all agricultural producers who have hereditary or transferable interest in land should be compulsorily adjusted without waiting for applications from borrowers. Arrears of rent should be treated as debt but not the current rent charges. Debts due to co-operative societies should be adjusted with the consent of the Registrar of Co-operative Societies of the province, who should determine the extent of remission which the society could give on such debts.

The work of adjustment should be entrusted to judicial officers or to boards adequately manned by judicial officers.

The proceedings of the boards should have the status of judicial proceedings and their decisions should be final. No party should be allowed to be represented by a legal practitioner as a matter of right. Each board or officer should be assisted by a staff of experts to assess the value of property, repaying capacity, etc. The work of adjustment should be completed within a specified time, which should not exceed two years.

It should be made obligatory on all creditors to submit their claims to the board. The opening and closing dates for the submission of claims and documentary evidence should be prescribed by law. Any claim not submitted within the period should be deemed as discharged for all purposes and for all occasions, unless special reasons exist for the delay, in which case their revival should be allowed within a specified period only. The debtors should be made to submit statements of their assets and liabilities before a definite date. To determine the fair amount due from a debtor, the adjustment agency should scrutinize each account and go behind the entries as is provided in the Usurious Loans Act and the Deccan Agriculturists' Relief Act.

It should also apply the rule of *damdupat* which should be defined so as to mean that total payments cannot exceed twice the principal originally lent and that interest cannot be converted into capital.

The amount determined as fair should be reduced to the present value of the debtor's normal repaying capacity over 20 years worked out at a rate of 4 per cent interest or to 50 per cent of the normal value of his immoveable assets, whichever is less, provided that :

(a) A secured debt is not reduced to less than 50 per cent of the value of the property on which it rests ; and

(b) The proportion allowed of a secured debt in terms of the value of the property on which it rests is not smaller than the proportion allowed of the unsecured debts to the total of such debts.

If a debtor has no hereditary or transferable rights in land and his debt fairly determined exceeds his total paying capacity by a given proportion to be prescribed in law, the board should adjudge him an insolvent to be dealt with compulsorily under a simple insolvency procedure. If a debtor has hereditary or transferable rights in land and his debt exceeds his total repaying capacity or half the value of his immoveable assets (whichever is less), by a given proportion to be prescribed in law, the board should adjudge him an insolvent to be dealt with compulsorily under a simple insolvency procedure, irrespective of the amount of debt or the value of assets involved.

A provision should be made in law for a summary administration of the debtor's estate whereby all his property may be realized with all reasonable dispatch and distributed, wherever practicable, in a single dividend. The provision of proper relief and of proper avenues of employment to such insolvents as part of agricultural, industrial or other reconstruction should claim the first attention of the Government.

The immoveable agricultural property belonging to insolvents should be transferred to the development and rehabilitation administrations at a price determined by the board in its process of adjustment. These properties should be managed or disposed of with a view to the best utilization of the resources of the land through either co-operative effort or the establishment of a solvent peasant class.

In the case of all other debtors, the adjusted debt should be awarded to be paid to creditors (including the Government, Co-operative Societies, etc.), immediately in a lump sum, by borrowing from a land mortgage bank or a governmental agency set up for the purpose. This forms one of the integral parts of the scheme of debt adjustment.

Co-operative Land Mortgage Banks, wherever they exist, should have the first claim to take up the adjusted debts. They should be free to judge each case according to their own standards. All cases other than those taken up by co-operative land mortgage banks should be taken over by the state agency. The agency taking over the debt will recover it from the debtor in instalments spread over a period not exceeding 20 years.

The work of debt adjustment should be accompanied in every region by the provision of agencies of credit alternative to the private financier and a regulation of his operations.

(ii) *Mode and extent of state finance in normal times and circumstances.*—The process of debt adjustment must be accompanied by a complete reconstruction of the financial structure. The main aim of this reconstruction in the immediate future should be to provide the solvent agriculturist producers in all areas with an agency alternative to the private money-lender from which they can be sure of obtaining finance for all reasonable purposes on reasonable terms.

This alternative agency of credit must be an autonomous public corporation established by the state and operating under general official supervision and direction, but whose day-to-day working and normal business transactions are largely conducted on an independent basis.

Its capital will have to be provided chiefly by the provincial Government—at least to the extent of 50 per cent. Other institutional elements of the general credit system may also be invited to subscribe to the share capital. Shares should be placed only with selected credit institutions, chiefly joint-stock banks, co-operative banks and marketing organizations.

Its affairs should be managed by executive officers and its policies should be framed by a board consisting chiefly of nominees of the Government and representatives of other shareholders. Both the executives and the board should be appointed by the provincial Government for a fixed term of years. Some of the Government nominees will be officials. In making the other nominations the Government should secure special representation of those engaged in agriculture and in working co-operative organizations.

In providing finance, whether short-term or long-term, the corporation must pay attention to both the real assets owned by the borrower and the nature of his personal business. For giving long-term mortgage credit, it will have to conduct a full inquiry into the individual's assets and also his earning capacity. For intermediate credit, the specific charge on equipment or chattels might be reinforced by a collateral mortgage. The limits of short-term credit might be defined in terms both of value of real estate and of certain features of individual business.

The corporation would be able to undertake efficiently and expeditiously the work of making available mortgage finance immediately on a country-wide scale.

For intermediate finance, required specially in areas where mixed farming is common, or special weight attaches to animal husbandry, or agriculture is commercialized, some kind of borrowers' organizations—co-operative or otherwise—may have to be created.

Short-term finance in areas where important commercial crops are concentrated might not be difficult if attempts at the stabilization of agricultural prices, etc., lead to a considerable control by the state over marketing and prices so that loan recovery is guaranteed.

In the absence of such conditions the corporation might provide intermediate and short-term finance directly to substantial cultivators. If it has already provided these with long-term mortgage finance, it may also

advance the short-term finance on second mortgage of lands or on chattel mortgage or with some kind of crop charge.

For meeting the short-term needs of the smaller cultivators, the latter should be induced to form themselves into co-operative credit, marketing or sale societies.

Where this is not possible, it is necessary to attempt some type of simple organization of borrowers' groups to form a link between the local agency of the corporation and the large number of agriculturist producers scattered over the countryside.

The main services of a borrowers' group might be to collect and transmit loan applications and the information required in respect of them.

The Agricultural Credit Corporation should be a centralized type of organization. The number of agencies and sub-agencies to be organized will depend on the volume of business available in each area.

For the bulk of its ordinary business, the Corporation will not require any considerable subsidization by the state to maintain the rates of interest recommended. In less developed areas where the cost of administration and collection of loans and the risks connected with them are large, there is need of state subsidy which may be given by such means as giving free use of substantial funds or by directly subsidizing costs of administration, supervision, etc.

Where the co-operative banking structure is not yet highly developed, the Corporations should take on themselves the financing of co-operatives. Where co-operative banking is developed, except in the direction of land mortgage banking, the Corporations could handle mortgage business and no special attempt need be made to develop co-operative land mortgage banking. Where co-operative banking is highly developed in both ordinary and land mortgage business, the Corporations would constitute a third system. In both these cases, the three agencies should be effectively co-ordinated and care taken to prevent overlapping of areas, duplication of effort, or redundancy of finance.

The Agricultural Credit Corporation should work in close co-ordination with the technical and other agencies of the state.

The rates of interest have to be reasonably low for current or intermediate finance and lower still for development finance; broadly  $6\frac{1}{4}$  per cent for current finance and 4 per cent for development are proper limits.

(iii) *The co-operative movement.*—In order to improve the system of co-operative finance given by the primary credit societies the frozen assets of co-operative societies should be liquefied by adjusting the claims of the societies to the repaying capacity of the members.

The primary credit society should continue to be the nuclear unit of the co-operative credit structure.

The credit societies should, as a rule, adopt unlimited liability. If limited liability is proved to attract valuable elements to the movement in any region, it could be adopted provided that a substantial part of the funds required by the society can be raised through share capital;

the liability in such cases may be limited to the value of shares or to a certain multiple thereof.

The primary credit society should try to finance all the short-term needs of its members and also, subject to certain limitations, their intermediate-term needs. In a co-operative society the credit-worthiness of a member should be assessed on the basis of his repaying capacity. The security for advances should ordinarily be personal. But the society should have a statutory charge on the crop as an additional security for all its seasonal finance, the wilful breach of which charge should be made a criminal offence. Mortgage security may be justified when the size and period of the loan require it; but it should only be collateral.

The delay in clearing loan applications should be minimized.

Regular repayment of loans should be insisted upon. Extensions may continue to be allowed in case of temporary difficulties. For wilful defaults there should be no hesitation in resorting to coercive measures.

In areas where a high rate of interest (higher than  $6\frac{1}{4}$  per cent) is due to the small size of the unit and high costs of administration, the Government should subsidize the cost of administration so as to bring the lending rate within the recommended limits.

An increasing use should be made by the provincial co-operative banks of the schemes formulated by the Reserve Bank to grant accommodation to them at a concession rate. The authorities of the Reserve Bank should consider the desirability of increasing the reductions below bank rate on such accommodation to say  $1\frac{1}{2}$  or 2 per cent.

The efficiency of co-operative finance should be improved by closely linking the operations of credit societies with those of sale societies.

The efficiency of co-operative finance should also be improved by ensuring the proper application of loans:

(a) by supplying as far as possible the requirements of members (in kind) through direct arrangement with purchasing unions and consumers' stores which would supply the goods to the members by debit to the societies' account. In the absence of such organizations, the society itself might supply the goods; but it should work strictly on indent system and should not undertake any trading risks; and

(b) by a constant and careful supervision of the operations of societies and their members through an efficient supervisory staff, the cost of whose maintenance should be met by the state.

Attempts should be made to create public opinion against extravagant ceremonial expenditure. For expenditure on a reasonable scale on such occasions, the possibility of making advance provision in terms of a specific savings programme should be explored by the co-operative societies.

The business of existing land mortgage banks should be developed wherever possible.

Long-term mortgage finance to the agriculturist should be made available at not more than 4 per cent interest and the Government should subsidize the land mortgage banks to enable them to do so. The land



mortgage banks should attempt to give more finance for land improvement in consultation with the Agricultural Department.

(iv) *Private financial agencies and their regulation.*—In view of the vast extent of the country and the large varieties of conditions in it, attempts should be made to develop as varied a system of institutional credit as possible for financing agriculture. All reasonable facilities which do not hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization.

In order that commercial banks may increase the volume and scope of their business in regard to agriculture

(a) marketing should be regulated by law,

(b) licensed warehouses should be established and their receipts made negotiable.

Warehouses should be constructed by the state (as an integral part of its transport development plan) at all nuclear points of trade in agricultural produce. The warehouse system should be operated by a public corporation organized on lines similar to that of a Port Trust or Improvement Trust.

The existing law regulating money-lending should be improved to make it more effective. The Act in all provinces should provide (a) licensing of money-lenders, (b) maintenance of accounts in a prescribed form, (c) prohibition against showing in books of accounts or in any other document a sum larger than what has been actually lent, (d) furnishing of periodical statements of accounts to the debtors, (e) furnishing of statements to the debtor in the prescribed form giving full particulars about each loan, as and when advanced, (f) issue of receipts to the debtors for every payment received, etc.

The definition of 'money-lender' should be made more comprehensive so as to include all loans bearing interest. Only loans advanced by institutions such as a Government, co-operative societies, and by all scheduled banks and such non-scheduled banks as fulfil certain prescribed conditions, should be exempted.

A state inspecting and supervising agency similar to the one functioning under the Small Loan Legislation in the U. S. A. should be set up in each province. It should carry out periodical and surprise inspection of the books of money-lenders. Every money-lender should be required to submit to the agency annual returns regarding his business. The agency should publish periodical reviews of the effects and working of Debt Acts.

Regulation of money-lending should be accompanied by a regulation of agricultural marketing not only inside the markets but also outside them. All market agencies should be required to maintain proper accounts and give to the seller vouchers and statements in the prescribed form.

All usufructuary mortgages which do not provide for automatic redemption within 20 years should be prohibited by law.

In simple mortgages, transfer of land (by way of sale) should be made

void and the mortgagee should only be entitled to possession for use for a period not exceeding 20 years to recover the amount remaining to be paid ; and the mortgagor should have the option to convert at any time the simple mortgage into a self-liquidating usufructuary one.

Specific classes of institutions, such as co-operative land mortgage banks and the Agricultural Credit Corporations, should be exempted from the regulations on mortgage lending.

(v) *Relief and rehabilitation and development.*—Famine finance, which consists chiefly of grants and special purposes loans at concession rates, cannot be administered by the system of normal finance. The state agency administering famine relief will also have to distribute this famine finance as a supplement to the ordinary activities of the normal system.

In tracts where distressed conditions almost form part of the cycle of production the economy of the region as a whole would have to be reconstructed by a long-term programme in addition to the work of relief at the actual time of distress.

During the working of this programme of rehabilitation, most normal operations, including that of finance, would be adjusted to meet the needs of the programme and their control would best be centralized in the main authority working it.

In areas of solvent economy where particular communities suffer from a depressed condition, only a complete plan of rehabilitation worked by a state agency and whose implementation is supervised by that agency will solve the permanent problem of such communities.

In order to co-ordinate the work of the agencies implementing the rehabilitation programme and the development programme, the setting up in each province of two administrative sections, parallel to the Farm Credit Administration and the Farm Security Administration in the U.S.A., is suggested.

One section should be concerned with normal credit activity and look after the working of the Agricultural Credit Corporation and the co-operative movement ; it should be responsible for supervising the working of debt adjustment machinery ; and it should be entrusted with the inspection of money-lenders. It could usefully undertake the supervision of market regulations, and administration of the corporation looking after warehouses.

The other section would chiefly be concerned with relief and rehabilitation and provide the finance needed for such purposes as administration of state loans and grants.

## CHAPTER X

### THE CO-OPERATIVE MOVEMENT IN INDIA

§1. Meaning of co-operation.—The following quotations serve to bring out the salient characteristics of co-operation :

‘The theory of co-operation is very briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain, in his own degree, the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as “better business, better farming and better living”.’<sup>1</sup>

‘Every group of individuals, associated to secure a common end by joint effort, may be said to co-operate ; for instance, a football team, a gang of robbers, or the shareholders of a speculative company. A century of history has given to Co-operation with a capital C a more precise meaning. It indicates the association of individuals to secure a common economic end by honest means : it is also essential in many forms of Co-operation that the individuals possess a personal knowledge of one another.’<sup>2</sup>

‘Co-operation in its technical sense means the abandonment of competition in distribution and production and the elimination of middlemen of all kinds.’<sup>3</sup> ‘Co-operation begins in mutual help with a view to end in a common competence.’<sup>4</sup>

‘It is a special form of economic organization in which the people work together for definite business purposes under certain definite business rules. The root of the co-operative idea is a relation between business and ethics which is greater than the necessary commercial honesty of our present industrial system.’<sup>5</sup>

It will thus be seen that in a co-operative society (i) the association of individuals for the achievement of the common economic good is purely voluntary, (ii) the moral aspect is as much emphasized as the material, and (iii) special importance is attached to the educative influence of co-operative effort.

The scope of co-operation, in theory at any rate, is as wide as that of economics itself. In practice, however, it has hitherto had a limited application in industry to production of wealth, though small industries like

<sup>1</sup> *MacLagan Committee Report*, par. 2.

<sup>2</sup> C. F. Strickland, *Co-operation in India* (third edition, 1938), p. 15.

<sup>3</sup> Seligman, *Principles of Economics*, p. 151.

<sup>4</sup> H. Myric, *Federal Farm Loan System*, p. 18.

<sup>5</sup> L. S. Gordon and C. O'Brien, *Co-operation in Denmark*.

hand-loom weaving not requiring much capital, initiative and expert business ability may be helped by co-operative organization. As applied to modern large-scale industry which requires costly and complex machinery, expert business management and discipline, co-operation has not been found practically effective. In the field of purchase or consumption of wealth and of credit, however, it has attained a large measure of success.

§2. Co-operation in Germany.—As credit societies, agricultural and non-agricultural, have been based in India upon the Raiffeisen and Schulze-Delitsch types respectively as evolved in Germany about the middle of the last century, we may here describe the main features of each of them.

(i) In the case of a properly constituted Raiffeisen society the following requisites are generally insisted upon: (a) Limitation of area of operation; (b) no shares, or very low shares (so as to prevent dividend-hunting and to enable even the poorest persons to become members); (c) unlimited liability (in order to ensure better credit and mutual supervision);<sup>1</sup> (d) loans as far as possible for productive purposes only, and only to members; (e) credit for relatively long periods with facilities for repayment by instalments; (f) a permanent and inalienable reserve fund; (g) absence of profit-seeking and dividend-hunting and the crediting of profits to the reserve fund; (h) absolute gratuitousness of administration and democratic management; and (i) promotion of the moral as well as the material advancement of members.

(ii) The following are the features which differentiate the Schulze-Delitsch type from the Raiffeisen type:

(a) Wider area of operation; (b) relatively greater importance of share capital; (c) limited liability; (d) short-term credit; (e) a smaller reserve fund, only a part of the profits being assigned to it; (f) a freer distribution of profits or dividends; (g) paid administration to secure efficiency; and (h) special emphasis laid on the business aspect of the society rather than on the moral results.

Both the types are necessary, being suited to meet the differing needs of the two classes of people for whom they are meant. We shall discuss this matter further when we take a survey of the credit societies established in India.

The co-operative movement has spread far and wide over the world, in the East as well as in the West, and has, in recent times, assumed an international character in aims and tendencies. As a cure for the evils of capitalism the advantage claimed by co-operation over socialism and other suggested remedies is that, while preserving intact the stimulus of self-interest, it organizes it on a higher plane and on the basis of collective effort. It thus claims to be the happy golden mean between capitalism and socialism.

§3. Co-operation and its uses in India.—For us in India, co-operation has

<sup>1</sup> See, however, §10 (iii) below.

a special message. The bulk of our population consists of small farmers and artisans; and even in our growing towns, the principle of co-operation has beneficent applications: for example, in providing suitable housing or ensuring the supply of domestic requirements of good quality at fair prices for the benefit of the middle classes and the wage-earners. Moreover, though some of the Western types of co-operation may be new, the principle and spirit of it is by no means alien to the genius of the country, for it underlies many of its characteristic institutions, such as the caste system and the joint family and is also evidenced by organizations like the *nidhis* in Madras.

§4. Co-operative Credit Societies Act, 1904.—The idea of using co-operation in India as a means of combating rural indebtedness and supplying rural credit was first suggested by Frederick Nicholson, a Madras Civilian. He was entrusted by the Government of Madras with an inquiry into the feasibility of starting a system of land banks, and in his famous report published in 1897 he pleaded powerfully for the introduction of co-operative credit societies as the only satisfactory solution, in a country like India for 'bringing to the peasant that continued ever-fluctuating credit which he needed'. No action, however, was taken on this report. There were scattered, unco-ordinated and individual efforts made in the United Provinces by Dupernex and by other District Officers in the Punjab and Bengal towards establishing and working co-operative credit societies. In 1901 Lord Curzon appointed a strong committee under the chairmanship of Sir Edward Law and the recommendations of this committee resulted in the passing of the Co-operative Credit Societies Act, 1904. The Act provided for the formation of credit societies only and postponed all forms of non-credit co-operation. This policy was deliberately adopted, because it was held that, among a relatively backward population, the difficulties involved in the management of productive and distributive business were likely to prove a stumbling-block in the way of progress. Credit societies with their simple organization and method of management afforded an easy field in which the principles of co-operation could be learnt and practised and attention was therefore mainly devoted to them.<sup>1</sup> Further, special emphasis was laid on rural rather than on urban credit in view of the more urgent character and greater importance of the former.

We may now notice the important provisions of the Act. Any association of ten persons who had attained their majority could apply for registration and form themselves into a co-operative society. The applicants and future members were to be from the same village or to be members of the same tribe or caste or to be from the same town. Credit societies were distinguished as rural and urban according as at least four-fifths of their members were agriculturists or not respectively. In the case of rural societies, unlimited liability was the rule; in the urban societies

<sup>1</sup> See MacLagan Committee Report, par. 8.

the matter was left to the option of the society. A rural society was to carry all its profits to an inalienable reserve fund, unless otherwise directed by the local Government in special cases. In the case of urban societies, only one-fourth of the profits was to be carried to the reserve fund. Certain limits were placed on the size of the share capital where this was raised; no member was to hold more than one-fifth of the shares; the total value of an individual member's shares could not exceed Rs. 1,000; nor could he have more than one vote. The societies were to raise the required working capital by entrance fees, shares, deposits from the members and loans from outside, and were to distribute the funds so raised only among members. A loan from one society to another was to be subject to the permission of the Registrar. Registrars were to be appointed in all provinces to exercise supervision over the organization and control the movement. The Government reserved certain powers for themselves such as (i) compulsory inspection and audit, (ii) compulsory dissolution of a society, if necessary, by the Registrar, subject to an appeal to the provincial Government, and (iii) wide rule-making power.

The movement was assured generally of Government sympathy, assistance and guidance. The two cardinal objects which the Government kept in view in regard to the above provisions were simplicity and elasticity: simplicity so as to avoid elaborate schemes beyond the comprehension of the ryots, and elasticity to leave full scope for the development of the movement on lines suitable to each province, subject only to certain broad general principles incorporated in the Act.<sup>1</sup> To encourage the movement the Government offered certain concessions and privileges to the societies registered under the Act, such as exemption from income-tax, stamp duties and registration fees; the grant of the benefits of a corporate body; priority over the ordinary creditors of a member next to land revenue; free Government audit, etc. The Government also promised the grant of loans to societies free of interest for the first three years, subject to the condition that the loan was not to exceed Rs. 2,000, and was to be granted only up to an equal amount raised independently by the society concerned.

§5. Review of progress from 1904 to 1912.—The Provincial Governments lost no time in giving effect to the new scheme of co-operation under the guidance of the Registrars who were appointed for the purpose. In every province, the new doctrines struck root and the progress made was remarkable, as will be seen from the table on p. 277.

The movement soon outgrew the best expectations of its promoters, at least so far as the number of societies started was concerned, and in two directions especially the need for a change in the Act of 1904 was felt. The credit societies established under this Act had paved the way for co-operative societies for distribution and purposes other than credit, for which as yet there was no legislative protection. At the same time, the

<sup>1</sup> See Sir Denzil Ibbetson's explanatory memorandum accompanying the Act of 1904.

need for a free supply of capital and an improved system of supervision had led to the formation of various central agencies, afterwards known as unions and central banks, to finance and control the primary credit societies, and these also were not recognized by the Act of 1904.<sup>1</sup> Moreover, the classification of societies into urban and rural societies was found to be unscientific and inconvenient. Lastly, the prohibition regarding distribution of profits in rural unlimited liability societies was a hardship, especially where, as in the Punjab and Madras, share capital had become important. On a re-examination of the whole situation the Government of India decided to pass entirely fresh legislation calculated to remove these deficiencies of the Act of 1904.

Year	Number of societies	Number of members of primary societies	Amount of working capital Rs.
1906-7	843	90,844	23,71,683
1907-8	1,357	149,160	44,14,086
1908-9	1,963	180,338	82,32,225
1909-10	3,423	224,397	1,24,68,312
1910-11	5,321	305,058	2,04,05,800
1911-12	8,177	403,318	3,35,74,162

§6. The Co-operative Societies Act, 1912.—The Act of 1912 recognized non-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc. It also recognized three kinds of central societies as distinguished from primary societies, namely, (i) unions, consisting of primary societies for mutual control and audit, (ii) central banks, consisting partly of societies and partly of individuals and (iii) provincial banks, consisting of individuals.

In view of the importance of share capital in certain provinces like Madras, the Punjab and Burma, permission was given to declare dividends on shares in unlimited liability societies, subject to the general or special permission of the provincial Government concerned. Express permission was also given to all societies to set apart a portion of their profits, not exceeding 10 per cent, for educational and charitable purposes, after one-fourth of the profits had been carried to the reserve fund. The new Act superseded the earlier distinction between rural and urban societies by a more scientific one between limited and unlimited liability societies. The Act laid down that the liability of a society of which the members are registered societies shall be limited, while that of a society of which the object is the provision of credit to its members and of which the majority of members are cultivators shall be unlimited, and that in all other cases it shall be optional.

§7. Progress of the movement subsequent to the Act of 1912.—The immediate effect of the new Act was to give a fresh impetus to the co-operative movement. As will be seen from the following statement, the number

<sup>1</sup> See MacLagan Committee Report, par. 5.

of societies, their members and the amount of the working capital went on increasing steadily; and the expansion of the movement was rapid during the years following the war of 1914-18 until the depression, after which the pace slackened owing to the policy of 'consolidation and rectification' adopted by various provinces in consequence of the difficulties experienced by co-operative societies.<sup>1</sup>

	Number of societies in thousands	Number of members in lakhs	Working capital in Rs. crores
Average for 5 years from 1910-11 to 1914-15	12	5.5	5.48
Average for 5 years from 1915-16 to 1919-20	28	11.3	15.18
Average for 5 years from 1920-1 to 1924-5	58	21.5	36.36
Average for 5 years from 1924-5 to 1929-30	94	36.9	74.89
Average for 5 years from 1930-1 to 1934-5	1,06	43.2	94.61
1937-8 ... ..	1,11	48.5	103.02
1938-9 ... ..	1,22	53.7	106.56
1939-40 ... ..	1,37	60.8	107.10

The progress of the movement is uneven in the different provinces and States and it has reached only a small part of the population. Co-operation has developed more rapidly in ryotwari provinces because here the agriculturist has mortgage rights in his land and can therefore offer real security. In the landlord group of provinces he can offer only personal security.

New types of societies for the sale of produce, cattle insurance, milk supply, yarn, silk and manure purchase, retailing of farm implements and common necessities were started, and most of them soon appeared to be prospering. The number of central societies was increasing rapidly and the movement was apparently fast winning the confidence of the public. In 1914 the Government of India reviewed the whole situation and issued a comprehensive resolution laying down in general terms the practical lessons that might be drawn from experience. The sums involved in the movement were becoming large, the arrangements for financial management in stages above that of the primary society were getting complicated, and the principles for the conduct of inspection and audit were in need of more precise enunciation. Before taking the responsibility of fostering and supporting further growth, the Government wished to make sure that the movement was proceeding on economically and financially sound lines.<sup>2</sup> It was in these circumstances that the MacLagan Committee was appointed in October 1914 to inquire into and report on this aspect of the question. The movement entered on its third stage (the first two being marked by the Acts of 1904 and 1912 respectively) of development after the publication (1915) of the classic Report of this

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), p. 4 (published by the Reserve Bank of India).

<sup>2</sup> See *MacLagan Committee Report*, par. 6.



committee, which made far-reaching constructive proposals for future development. The movement elicited a good deal of non-official support and showed considerable progress on lines other than rural credit. Under the Reforms Act of 1919, co-operation became a provincial transferred subject and was placed under the care of a Minister, and this may be regarded as the fourth stage of the progress of the movement. During the earlier years of the working of the reformed constitution several provinces made progress on lines most suitable to their local needs, and Bombay gave a lead to other provinces by passing a separate Co-operative Societies Act for itself in 1925. The Bombay Act, though mainly based upon the framework of the Act of 1912, marked an improvement over it in the following directions:

(i) A distinct classification of the various societies according to objects, finance and methods of working; (ii) the creation of a first charge of the society against crops raised by a member with the loan taken from the society; (iii) improvement of the procedure for the liquidation of cancelled societies; (iv) extension of summary powers of recovery through the awards of arbitrators; and (v) provision of penalties against specified offences.<sup>1</sup> The lead thus given by Bombay was followed up by other provinces, such as Madras (1932), Bihar and Orissa (1935), Coorg (1937) and Bengal (1941).

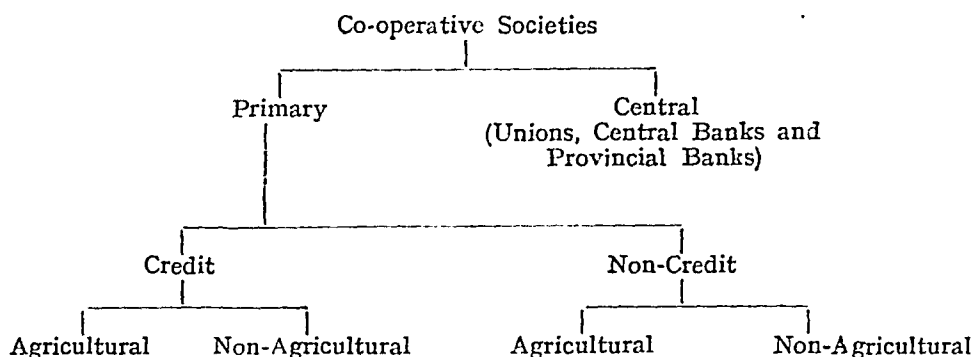
Though since 1921 there has been a large addition to the number of societies all over India, later efforts, especially since the depression of the thirties which brought about a crisis in co-operation, were directed more to the rehabilitation, reconstruction and reorganization of existing societies than to further rapid expansion. The establishment of the Agricultural Credit Department of the Reserve Bank of India (see §22 below), the village uplift campaign in several provinces and the assumption of office by Congress Ministries in eight provinces in 1937, are some of the more important developments affecting the recent history of the co-operative movement in India.

§8. Co-operative movement during the war of 1939-45.—The outbreak of war in 1939 found the co-operative movement struggling to find a new equilibrium and a basis for further advance. The earlier expectations of prompt liquidation of overdues and the strengthening of the co-operative movement were not fulfilled owing to the erratic course of prices in general and agricultural prices in particular. The war also made it somewhat difficult to ensure a continuous and adequate supply of cheap long-term loanable resources. Besides, co-operative banking in common with joint-stock banks had to face withdrawals of deposits at the beginning of the war, and again in May-June 1940. But confidence was soon restored. Another noteworthy effect of the war was the stimulus it imparted to the setting up of supply societies or consumers' stores in some provinces as a safeguard against profiteering as well as some stimulus to the organiza-

<sup>1</sup> See D. G. Khandekar, *The Bombay Co-operative Societies Act, 1925*, p. 3.

tion of co-operative marketing to assure the benefit of higher prices to the producer. Finally the war gave a fillip to numerous small industries such as woollen and cotton hand-loom weaving,<sup>1</sup> and naturally enough the Co-operative Departments, assisted by grants from the Government of India, have shown greater interest in the development of small industries and encouraged them with advice and guidance.<sup>2</sup>

§9. Classification of co-operative societies.—We now proceed to study in more detail the main features of the co-operative movement. The following classification of co-operative societies will give some idea of the complex co-operative structure that has been built up in India.



Some idea of the relative importance of the main classes of societies may be formed from the following table :<sup>3</sup>

Type	Number of societies		Number of members	
	1906-7 to 1909-10 (average)	1942-3	1906-7 to 1909-10 (average)	1942-3
Central (including provincial and central banks and banking unions)	17	599	1,987	214,882
Supervising and guaranteeing unions (including re-insurance societies) ..		437		28,459
Agricultural (including cattle insurance societies) .. .. .	1,713	126,305	107,643	4,613,261
Non-agricultural .. .. .	196	18,819	54,267	2,298,743
Total ..	1,926	146,160	161,910	6,912,004
			Total number of members of primary societies	

The official classification of co-operative societies adopted by the provinces on the suggestion of the International Institute of Agriculture at

<sup>1</sup> See ch. xiii, also vol. II, ch. ii.

<sup>2</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 2-3, *Sixth Report of the Bombay Provincial Co-operative Land Mortgage Bank* (1941) and article on 'Effect of War on Co-operation in Bombay' by V. L. Mehta in *The Indian Co-operative Review*, January-March 1940.

<sup>3</sup> *Statistical Statements Relating to the Co-operative Movement in India for the years 1941-42 and 1942-43*, pp. 21-2.

Rome is : (i) credit, (ii) purchase, or purchase and sale, (iii) production, (iv) production and sale, (v) insurance, and (vi) others.

The following statistics give some idea of the progress made by various types of (i) agricultural and (ii) non-agricultural societies up to the years 1942-3.

Credit	Purchase and purchase and sale	Production	Production and sale	Other forms	Total number of societies	Number of members	Working capital in Rs.
<i>Agricultural societies</i>							
110,635	626	1,864	7,968	4,941	126,034	4,493,479	29,08,46,991
<i>Non-agricultural societies</i>							
7,093	2,225	13	1,649	7,715	18,802	2,245,783	33,94,79,625

This brings out the overwhelming predominance of the credit societies, especially the agricultural credit societies, and the comparatively poor development of other types, though the situation in this respect is gradually improving. This classification is somewhat defective in so far as the returns based on it do not give an adequate idea of the true development of co-operation in India in certain important directions. For instance, many a credit society in India has tacked on purchase or sale or production or a combination of two or three of these functions to its original business of giving credit.

§10. Primary agricultural credit societies.—Let us now consider the different types of co-operative societies in India, laying special emphasis on rural credit societies, which represent the great bulk of the total number of societies. Beginning with a typical primary agricultural credit society we may consider it under various headings as follows :

(i) *Size*.—Any 10 persons can apply for the registration of a proposed rural credit society. The maximum strength of the society should preferably not exceed 100, because as the number increases the efficiency of management and supervision, as also the quality of training received by the members, suffers.

(ii) *The area of operation*.—The Raiffeisen rule is that there should be as far as possible one society for one village, which is usually the case. This is necessary to ensure mutual knowledge and the exercise of mutual control on the part of members. It is noteworthy, however, that the Madras Committee on Co-operation favours the grouping together of small societies and their reorganization so as to extend their area of operations to more than one village, say, over a radius of three to five miles. This plan would make the societies economic units and also enable the co-operative movement to cover the vast rural areas within a reasonable time.<sup>1</sup> The multi-purpose societies in Bombay are being

<sup>1</sup> Report of the Committee on Co-operation in Madras, p. 154.

organized for a group of villages (see §13 below). The extension of the area of operation is closely connected with the suggestion in favour of limited liability which is examined in (iii) below.

(iii) *Liability*.—This is unlimited unless exemption from this rule is permitted by the Government. As the Maclagan Committee explained, unlimited liability means contributory unlimited liability, that is, in the case of default 'where there is a deficit in the engagements of a society to its creditors, this deficit should, after the full payment of shares (if any), be recoverable by a series of *per capita* levies upon the members up to the full extent of their property, direct proceedings by a creditor against individual members being forbidden'.<sup>1</sup> Unlimited liability, it is maintained by its advocates, carries with it a twofold advantage. It exercises an educative influence on the members by stimulating mutual control and supervision, and improves the credit of the society by inspiring confidence among its outside creditors. Opinion, however, is now changing in favour of limited liability. For instance, the Madras Committee on Co-operation (1939-40) expressed the view that unlimited liability has outlived its utility and recommended by majority the adoption of limited liability as the basis of reorganized societies. The Committee pointed out that unlimited liability during recent liquidations had worked harshly for members who were non-borrowers and non-defaulters, and had brought the movement into disrepute; that it kept away the solvent or better class of agriculturists; and that its assumptions of mutual watchfulness and control were not realities of village life today.<sup>2</sup> There is, however, still a considerable body of opinion which favours the retention of unlimited liability on the ground that it is an essential and basic co-operative principle, and that an abrupt change would shake the confidence of the creditor and affect the flow of funds into the movement. On the other hand, as Dr B. V. N. Naidu observed, 'the urban co-operative societies, which have been worked on the basis of limited liability societies, have not ceased to be co-operative and there is no reason why the principle should not be adopted for the larger (multi-purpose) rural societies proposed to be brought into existence'.<sup>3</sup>

(iv) *The Management*.—This is democratic and honorary. It is entrusted to two bodies, namely, a general committee consisting of all the members and a managing committee which is a smaller body of from five to nine members chosen from among the members of the former body at its annual general meeting. The general committee elects members of the managing committee, appoints a paid secretary (who must not be a member), adopts the annual balance-sheet submitted by the managing committee, considers the orders and reports of the registrar and auditors, expels members if necessary, fixes the maximum credit of the society as

<sup>1</sup> *Maclagan Committee Report*, par. 47.

<sup>2</sup> *Report of the Committee on Co-operation in Madras*, par. 165.

<sup>3</sup> See Presidential Address by B. V. N. Naidu at the twenty-fourth Madras Provincial Co-operative Conference (1941); also §13 below.

a whole and of the individual member separately, and amends the by-laws of the society. The managing committee is responsible for the routine and the executive business of the society. It admits new members, disposes of loan applications made by members, recovers arrears due from members and exercises supervision over them, raises funds for the society and inspects the accounts maintained by the secretary.

(v) *Working capital*.—The sources of this may be divided into two, internal and external. The internal sources consist of entrance fees paid by members, deposits by members, share capital if any, and surplus assets in the reserve fund of the society. Entrance fees are necessary to cover preliminary expenses and serve the useful purpose of bringing home to members that the privilege of membership implies sacrifice. Share capital plays only a small part, except in some provinces like the Punjab, Madras, and the United Provinces. Recently, the instalment share system has been introduced in the Bombay province, especially in the canal areas, and it is welcome as a 'second line of defence' and as 'buttressing the unlimited liability of members'. It is generally defended on the ground that it helps a co-operative body in the speedy acquisition of a substantial permanent capital of its own. But on the whole, this object is best fulfilled by forming a substantial reserve fund fed by as wide a margin between the borrowing and lending rates as is consistent with the attainment of financial self-sufficiency on the one hand, and the provision of cheap credit on the other. A fairly wide margin is possible because lending rates are generally very high in India. Too low a rate of interest is also to be deprecated because it may tempt the borrowing members to re-lend. In the provinces mentioned above, members of rural credit societies have shown a preference for share capital, so as to enable them to have their own capital. There should be no objection to this, provided the shares do not keep out poor persons and do not lead to dividend-hunting as in an ordinary joint-stock company; and as a matter of fact, the resort to share capital is often being found necessary to lessen the dependence on outside agencies. Deposits raised locally constitute a highly desirable method of raising the capital required by a rural credit society because they 'imply thrift in the village, form a good lying or reserve money, and they tend to interest in the management of the society a useful body of men who stand as sentries over their own deposits'.<sup>1</sup> Local deposits, however, form only a small part of the total working capital of rural societies in India, in striking contrast with the Raiffeisen Societies in Germany, which raise the bulk of the funds required by them locally. Attempts are being made everywhere to encourage such deposits, but the response has been small, except in the province of Bombay where deposits by members form about one-eighth of the total working capital. The habit of deposit banking is still in its infancy, especially in rural areas, and money-lending and commerce fetch higher rates of interest than can be

<sup>1</sup> *MacLagan Committee Report*, par. 48.

secured on deposits. In the richer parts of the country the tendency towards the purchase of land or gold and silver still persists largely. The existing village credit societies, instead of consisting of more or less all sections of the population of the village, are very largely made up of the needy section, the well-to-do keeping aloof and playing or trying to play the sahuکار. Further, the average income of the masses is small and leaves hardly any margin for saving. But unless there is a substantial increase in the deposits, co-operation will have failed in one of its objects. The system of compulsory deposits is, however, unsound, and thrift can be better stimulated by the introduction of shares payable by small instalments.

We must now turn to the external sources of capital. These are mainly loans and deposits from other societies, from the Government, and most important of all, from secondary or central financing agencies like the central and provincial co-operative banks which have been found indispensable in every province. The Government have very wisely avoided the policy of doles and have restricted their loans to quite an insignificant amount. Regarding loans from central financing agencies we shall have more to say later on when we deal with the problem of co-operative finance. We need only remark here that the rural credit societies are to-day largely dependent upon such outside loans, shares and deposits contributing only a portion of their total working capital.

The following statement shows the composition of the working capital, in lakhs of rupees, for all India (including the States) in 1944-5 :

	Rs.
Share capital (paid up) .. .. .	20,21
Loans and Deposits held at the end of the year from	
Members .. .. .	18,56
Societies .. .. .	10,82
Provincial and Central Banks .. .. .	23,33
Government .. .. .	1,43
Non-members and other sources .. .. .	41,91
Borrowing of Land Mortgage Banks and Societies .. .. .	7,00
Reserve and other Funds .. .. .	23,34
Total ...	146,60

(vi) *The object of loans.*—Loans are given to members only for three objects : productive purposes, non-productive purposes, and redemption of past debts. Productive loans fall into three classes : short-term loans for current agricultural operations, payment of Government taxes, and long-term loans for permanent improvements on land. Loans for unproductive purposes, such as ceremonial expenses, are theoretically not permissible, but they are necessary to prevent the ryots from falling into the clutches of the money-lenders.<sup>1</sup> It is desirable, however, to inculcate economy as

<sup>1</sup> In Bombay and Madras, a system of normal credit statement has been devised which provides for almost every need of the cultivator, including unproductive expendi-

regards such expenditure by restricting these loans to small sums and to absolutely essential purposes. Turning to the redemption of past debts, the ideal policy should be to enable members to be free from all obligations other than those to their society. There are, however, two limiting considerations which make a wholesale redemption of the debts impracticable and undesirable: impracticable because of the impossibility of raising funds large enough for this purpose in addition to those required for loans to members for other purposes; undesirable because the psychology of a person chronically and heavily in debt, like the average cultivator in India, must be considered. A complete release from the burden of indebtedness effected at one stroke, even assuming such a feat to be possible, would have a distinctly demoralizing influence on the ryot unless positive steps could be taken to prevent recklessness and extravagance. Moreover, the mixing-up of long-term and short-term loans is undesirable from the banking point of view. According to expert co-operative opinion the ordinary village credit society should not venture on long-term loans, which fall within the province of land mortgage banks (see §28 below). The ambitious attempt made by some village societies in the past to redeem members' old debts has resulted in disaster.

(vii) *Repayment of debts.*—As regards the time of repayment, the general rule is that agricultural finance should follow the agricultural cycle of crops which should be an average of good, bad and indifferent seasons. In other words, repayment should be made out of the proceeds of the productive objects for which the loan has been issued; as for unproductive loans, they should be so adjusted to the position of the borrowing member, that by the exercise of thrift it should be possible for him to save enough out of his income to meet the instalments of his loans as they fall due. More should not be lent than can be repaid by fairly easy instalments within a reasonable period. Punctual repayment should be the ideal constantly striven for, and laxity in this respect should not be tolerated. Postponement should be granted only in urgent cases of real distress. Fictitious repayment and frequent and automatic renewals of loans should not be allowed as they do great injury to the interests of the society. The promptness in repayment of loans by members is rightly regarded as one of the most important tests of the success of a co-operative credit society. Judged by this standard it must be said that in India societies have not obtained any very great measure of success. The provincial Banking Enquiry Committees, the Reports of the Reserve Bank on Agricultural Credit and the Review of the co-operative movement in India made by the Reserve Bank in 1941 have especially emphasized the

ture on marriage, etc., and fixes the credit limit of each member in advance of the season and makes arrangements for the necessary finance in time. This system is endorsed by the Central Banking Enquiry Committee (*Report*, par. 174). Loans for unproductive purposes like ceremonies are discouraged and show a downward tendency. *Annual Report on the Working of Co-operative Societies in the Province of Bombay* (1939-40), par. 16.

feature of overdue loans and their evil effects. There has been an alarming growth of overdues in recent years. The position grew very serious owing to the calamitous drop in agricultural prices and the world depression, which reduced the repaying capacity of the agricultural borrower. The accumulation of heavy overdues and the freezing of the assets of the societies naturally resulted in clogging their business and paralyzed the working of the co-operative movement over large parts of the country, especially in Berar, Bihar, Orissa and Bengal, where the movement nearly collapsed (see §26 below). All precautions to ensure punctual repayment should be taken, such as the fixing of the normal credit of each member, careful selection of borrowers from among the applicants for loans, a proper scrutiny of the purpose of the loan and the repaying capacity of the borrower in dispensing co-operative loans, and effective supervision—by other members and sureties—of the activities of the borrowing members, and so forth. It is also necessary that repayments of loans should not be restricted to the same period for all debtors but should be fixed according to the special needs of individual borrowers.<sup>1</sup>

(viii) *Security*.—The ideal co-operative security is that offered by honesty and character. 'Honesty should be capitalized.' In practice, however, the risk of bad debts may be lessened and the credit of the society as a whole may be improved by asking the borrowing members to furnish sureties, normally from among the members, and accepting as collateral security moveable and immoveable property, though material security is, strictly speaking, inconsistent with the dictates of co-operation. If material security is altogether excluded, there is the danger of its owner pledging it with the money-lender. It has therefore to be tolerated to some extent. Under the law, mortgage security is permitted and power is given to provincial Governments to regulate it for any society or class of societies as may be deemed advisable. In all cases, however, the main security ought to be personal and a general bias against material security should be maintained.

(ix) *Division of profits*.—There are no profits in the ordinary commercial sense to be distributed in a rural credit society, especially if there is no share capital, all profits being credited to the reserve fund. Exception may be made, however, in two cases provided for by the Act of 1912, which allows a certain amount of expenditure from the profits for such objects as education and charity, and the distribution of limited dividends on share capital where there is any. Such expenditure has the additional advantage of arousing interest in the movement. In no case, however, should a co-operative society be allowed to degenerate into a dividend-hunting concern.

(x) *Arbitration*.—Arbitration for settlement of disputes between a society and its members is necessary to avoid the drain on the time, energy and the funds of the society, and to discourage litigation by exempting

<sup>1</sup> See *Maclagan Committee Report*, par. 63; V. L. Mehta, *Studies in Co-operative Finance*, pp. 84-6 and the *Report of the Central Banking Enquiry Committee*, par. 170.



the society from the jurisdiction of the ordinary civil courts and procedure. Such arrangements exist in Bombay and some other provinces.

(xi) *Summary powers*.—The grant of summary powers to societies for the recovery of arrears is most objectionable, militating, as it does, against the basic principle of co-operation. The only weapons of recovery should be the joint liability of members and exercise of moral force apart from the ordinary method of recovery through the civil courts. The grant of summary powers would lead to an injurious relaxation of close mutual vigilance and supervision.

(xii) *Dissolution*.—It is desirable to use the power of dissolving societies sparingly. But the power itself is necessary for the purpose of abolishing such societies as are a blot on the whole co-operative movement and offer no prospect of a useful career.<sup>1</sup> The Act has provided for the exercise of such power by the Registrar after inquiry into the affairs of the society.

The benefits conferred by co-operative societies, their limitations and defects, and the remedies that might be adopted to remove the latter are dealt with later in the chapter (§§26-7).

§11. *Non-agricultural credit societies*.—Speaking about the need for non-agricultural credit societies, the MacLagan Committee observed: 'With rising prices, insufficient and insanitary housing accommodation, wages often held in arrears, and a desire for higher standard of living consequent on the spread of education, industrial difficulties are bound to increase, and we are of opinion that any form of organization, such as co-operative societies, that has a tendency to alleviate these difficulties is worthy of support.'<sup>2</sup> Moreover, the excessively seasonal demand for money by agricultural societies makes it difficult for central banks to employ their capital profitably. Though, at the outset, more attention was paid to the starting of rural credit societies, non-agricultural credit societies of the Schulze-Delitsch type have also made some progress in all the provinces, a development which is in consonance with the policy, recommended by the MacLagan Committee, of abandoning the earlier emphasis on agricultural credit. The following main types of non-credit societies may now be discussed:

(i) *People's banks*.—Urban credit societies of the Luzatti type, meant specially for the benefit of the middle class, serve a useful purpose in making good, at least partially, the deficiency of joint-stock banking faci-

<sup>1</sup> The causes put forward for the failure of societies are various and include a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restriction of loans to a few individuals, dishonesty or incompetence of society officials, bad selection of members, the extension of a society over too large an area, concealment of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the society (*MacLagan Committee Report*, par. 86). See also the *Report of the Central Banking Enquiry Committee*, par. 173, and *Review of the Co-operative Movement in India* (1939-40), pp. 1, 7 and 8.

<sup>2</sup> *MacLagan Committee Report*, par. 15.

ties in India and supplying a training ground for the study of the theory and practice of banking, though they are often not truly co-operative. Urban banking is specially well developed in Bombay and Madras where almost all the important towns are served by such banks. In Bombay their activities are co-ordinated by the Co-operative Banks' Association which has rendered valuable service to the cause of urban banking. The Association, which consists of central and urban banks, was formed in the year 1939-40 on the recommendation of the Joint Re-organization Report. Speaking of the urban credit societies, the Registrar of Co-operative Societies, Bombay, in his *Annual Report* for 1926-7, observed: 'It would be difficult to exaggerate the effect which the urban and people's banks are having on the life of the towns. Local trade is being developed or fostered in areas where otherwise population and industries are dwindling; small artisans and citizens in every walk of life are acquiring the banking habit;<sup>1</sup> and in almost every important town the influential persons of all castes and professions are taking up this side of co-operative activity as one of the main forms of public work.' The urban co-operative societies of Gujarat have organized a supervising union of their own for internal audit.<sup>2</sup>

(ii) *Thrift and life insurance societies*.—An important variant of the urban co-operative society is the thrift society whose object is to promote thrift by collecting regular savings every month for a period of two to four years and investing them to the best advantage. In many societies loans are also advanced. The Punjab has over 1,000 such societies, the bulk of the members being schoolmasters. Madras and, to a limited extent, Bombay have also made some progress in this direction.

Recently life insurance societies have been started in Bombay, Bengal and Madras. The Bombay Co-operative Insurance Society, started in 1930, has made good progress and has recently issued a special scheme, under its rural branch, for the benefit of the members of primary societies. The South Indian Co-operative Insurance Society, Madras, has also made commendable progress.

(iii) *Societies for the employees of large firms and of Government departments*.—The objects of such societies (called Salary Earners' Societies) ought to be mainly the encouragement of thrift and saving and not the wholesale redemption of past debts. The success of these societies, which have made remarkable progress in Bombay, Bengal and to some extent in Madras, is due to the interest taken by the administrative head of the department or office and the facilities that exist for the recovery of the dues through pay sheets. Official tutelage and favouritism are the evils to be guarded against in this class of credit society.

<sup>1</sup> The *Annual Report* (1928-9) for Bombay refers (par. 80) appreciatively to the service being rendered by these societies in popularizing the use of cheques. See also *Report of the Bengal Banking Enquiry Committee*, par. 283.

<sup>2</sup> For an instructive study of the urban banks in India see *The Indian Co-operative Review* (Jan. 1936).

(iv) *Communal societies*.—Credit societies based on communal lines particularly lend themselves to co-operative effort on account of the strength of the communal feeling, which, however, is to be discouraged on wider national grounds. Within certain limits, however, these societies are useful for the educational and economic uplift of backward communities.

(v) *Artisans' societies*.—(See also §15 (i) below.) These correspond in their constitution and business to agricultural credit societies. Their area of operation is small, membership is open only to persons of the same occupation, the share capital is small and funds have to be borrowed from central institutions and other sources. Unlimited liability is therefore essential, though under the law it is optional. The most important of these societies are those established for weavers. The hand-loom weaving industry being even today the most important cottage industry, it needs organization on a co-operative basis and state assistance. In Bombay considerable progress has been achieved in this direction, and direct financial help by the Government to such societies would be thoroughly justified. A few credit societies for other small artisans, such as basket-makers, shoe-makers, blacksmiths, carpenters, etc., have been organized, but the progress made so far has been inconsiderable. The hope may be expressed, however, that co-operation may be used as a lever for the revival of the small industries of India. The small artisan is indeed confronted with the same difficulties as the small farmer in respect of credit and other needs, and a simultaneous organization of both the types of small-scale industry is urgently called for.

(vi) *Societies for factory workers*.—There is an urgent need for credit societies among the mill-hands in such factory towns as Bombay and Calcutta. Their economic and social conditions are far from satisfactory. Low wages, bad housing, high cost of living, exploitation by jobbers, ignorance, illiteracy, heavy indebtedness and intemperance are some of the evils from which they are suffering. These conditions can be largely improved by organizing the wage-earners into co-operative societies. Public-spirited employers of labour have rendered some help to such societies. Apart from providing cheap credit and promoting thrift, these societies also serve as centres for various social and educational activities which react favourably on the efficiency of the workmen. The illiteracy of the worker and his migratory habits are among the major obstacles to the rapid progress of co-operation among mill-hands.

### THE NON-CREDIT CO-OPERATIVE MOVEMENT

§12. Some general questions.—Before taking up a study of the various types of non-credit societies we may briefly discuss some general questions relating to the subject.

(i) *The recent development of the non-credit movement*.—The forms of co-operative activity that have proved most popular and successful in England are those connected with purchase, production and distribution. But in most Continental countries, these branches of work were not under-

taken until credit societies had been firmly established, and development in India has followed the Continental precedent.<sup>1</sup> The growing demand for non-credit co-operation, which manifested itself soon after the co-operative movement was launched, was a healthy sign of the appreciation of co-operative principles by the people and essential to the balanced development of the economic condition of the country as a whole. The Act of 1912, which recognized non-credit societies, was an effort to meet the demand. The progress made by the non-credit movement, however, has not been uniform in all the provinces. The earlier policy of concentration on rural credit has not yet weakened appreciably, and there have been greater difficulties in the way of non-credit than of credit co-operation. At the same time, the importance of non-credit institutions is now being realized to some extent, as is attested by the establishment of societies for various purposes, such as purchase, sale, production, insurance and housing, in both the agricultural and the non-agricultural spheres. The general organization of agriculture on a co-operative basis, bringing within its scope all the stages of agriculture, is a movement fraught with great possibilities. The benefits from co-operative credit can be fully realized only if the middleman in other spheres is eliminated by the starting of co-operative societies for non-credit purposes as in Denmark.

(ii) *Types of non-credit societies.*—We may divide the non-credit societies into agricultural and non-agricultural, each of which may be further subdivided into several types, such as societies for the purchase of raw materials and implements, sale of produce, production, distribution or consumption, insurance, construction and acquisition of dwelling houses, and miscellaneous.

(iii) *Liability.*—Under the Act of 1912 it is optional for non-credit societies to accept either limited or unlimited liability. The nature of the liability varies according to the needs and circumstances of the different types of societies. For example, agricultural non-credit societies will generally prefer limited liability, as their members are likely to have already pledged themselves to unlimited liability if they happen to be members of a credit society as well. Dairy societies and those of weavers, on the other hand, might find unlimited liability more suitable as their need for external capital is usually great.<sup>2</sup>

(iv) *Dealings with non-members.*—Such dealings, according to strict co-operative theory, are undesirable. In the case of artisans' insurance and building societies, dealings are necessarily confined to members. It is in purchase and sale societies that the question of dealings with non-members arises. If they are allowed, membership is apt to become stagnant, and ordinary commercial profiteering is likely to creep in, and there will also be complaints of unfair competition with private traders as, under the Act, co-operative societies enjoy certain privileges and con-

<sup>1</sup> *MacLagan Committee Report*, par. 8.

<sup>2</sup> See V. L. Mehta and V. Subbaiya, *Co-operation in India*, p. 116.

cessions denied to the ordinary private trader. In certain cases, however, such dealings may be permitted, especially for propagandist purposes, to enable a society not only to manage its affairs with profit and economy but also to demonstrate its utility to non-members so that they also may join.

§13. Single- versus Multiple-purpose society.<sup>1</sup>—Much controversy has centred round the question of single- v. multiple-purpose societies. A separate society for each purpose as in Denmark was until recently advocated in this country, and in a way such a plan appears to be both ideal and businesslike. The chief practical objection to it arises on account of the paucity of the right type of men for the management of several societies in a village. Moreover, the Indian agriculturist does not much relish multiplicity of agencies, being accustomed to deal with the *sahukār* for his various needs such as the supply of credit, purchase, sale etc. Moreover in order to ensure the fullest benefit from the supply of co-operative credit, it is necessary to link it up with purchase and sale and to secure proper co-ordination between them. Expert opinion in recent years has favoured the establishment of multi-purpose societies. The main objects of an agricultural co-operative credit society are to educate its members in the value and use of money and dispense controlled credit to them. In practice, however, it has been found that it is difficult to achieve these objects when credit is divorced from supply and sale.

Although the co-operative movement in India started for very good reasons with small, simple credit societies, there is at present a general and growing feeling that the agricultural credit movement has not yielded results corresponding to the effort made and that the time has arrived when it is desirable and possible to broaden the basis of the primary unit. In other words, the village society should cater for as many needs of its members as possible. This opinion has recently been vigorously championed by the Agricultural Credit Department of the Reserve Bank of India. The Bulletin on Village Banks issued by the Reserve Bank in 1937 advocates the reconstruction of the primary credit society, which is the pivot of the whole co-operative movement, on sound co-operative lines so as to bring the whole life of the village cultivator within its ambit. The policy of establishing multi-purpose societies was endorsed in the Joint Report submitted to the Government of Bombay by the Registrar and Mr V. L. Mehta as the result of an inquiry directed in the Government resolution issued in September 1937. Such societies have been organized in Bombay on a limited liability, at a few suitable centres provided with marketing facilities in each taluka. The area of these societies is restricted to a radius of about five miles from their registered office. The United Provinces have launched a bold experiment of the formation of multi-purpose societies on limited liability basis and there are more than 1,000

<sup>1</sup> See *Co-operative Village Banks* (Bulletin No. 2, pars. 23-4), *Statutory Report on Agricultural Credit* (Reserve Bank of India), par. 18.

such village banks, as they are called, in the province. The Madras Committee on Co-operation strongly favoured the reorganization of the village credit societies on a multi-purpose basis.<sup>1</sup> The Registrars' Conference (1939), which was somewhat sceptical about the new plan, recommended nevertheless that the provinces should experiment with multi-purpose societies and note their results. The idea of a multi-purpose society is thus receiving increasing acceptance. Such societies would supply the normal cultivation needs of their members, such as seed and manure, as well as credit to a limited extent for agricultural needs such as the purchase of bullocks. They would also serve as agencies for the sale of their marketable produce and produce of members of other co-operative societies. As multi-purpose societies develop they should act also as consumers' societies in rural areas.

The main advantages claimed for the multi-purpose society are : greater loyalty and more sustained interest of members, controlled credit, more economical and efficient management assisted by paid employees, economy both of men and resources, and an opportunity to the villages to undertake work of social and economic improvement by co-operation. The multi-purpose societies could be further strengthened if they could affiliate themselves to a Banking Union operating, say over a taluka, on the lines advocated by the Agricultural Credit Department of the Reserve Bank of India (see §18 below). Such a Union could interest itself in the various activities of the primary multi-purpose societies. On the other hand, there are certain defects in multi-purpose societies. Multiplicity of functions with financial responsibility creates the danger that failure in one line might affect other lines too. Again, unlimited liability, which is essential for securing deposits and credit on moderate terms, and ensuring effective mutual supervision by members, cannot be easily fitted in with the non-credit functions of the society.<sup>2</sup> As pointed out above, multi-purpose societies are being organized in some provinces, such as Bombay, Madras, and the United Provinces, on a limited liability basis. It is also doubtful whether suitable men would be available to run comprehensive multi-purpose societies, when there is at present a dearth of men to manage simple credit societies. Finally, the multi-purpose society operating over a group of villages would not ensure the close mutual knowledge so essential for the success of the co-operative idea.<sup>3</sup> These difficulties are real, and cannot be brushed aside lightly. Nevertheless, in the existing circumstances of the rural economy of India, the multi-purpose society appears to deserve a fair trial. The experience of several countries other than Denmark also lends support to the idea of the multiple-purpose society. In Bavaria, Saxony, Belgium, Austria, etc., the credit society or local bank does many other things besides supplying credit. The most

<sup>1</sup> *Report*, par. 160.

<sup>2</sup> *Agricultural Commission Report*, par. 375.

<sup>3</sup> See *The Indian Co-operative Review*, January-March, 1938, article 'Multi-purpose Society', by K. C. Ramakrishnan.

striking feature of Japanese rural co-operation is the very common combination of various branches, purchase, sale and so on, and almost in every instance credit, in one and the same society. Multi-purpose societies; however, are not intended to replace all agricultural credit societies, but rather to supplement them.

§14. Non-credit agricultural movement.—We may now proceed to discuss the progress made by the non-credit movement in India in its two branches, agricultural and non-agricultural. The need for the non-credit agricultural movement is very great, for, as the example of Denmark shows, agriculture can thrive in a country of peasant proprietors only if its operations are organized on a co-operative basis and the middleman is dispensed with, so that all profits may go to the cultivators. Co-operative societies for obtaining implements, machinery, manures and seed of good quality at moderate prices are needed, and a few of them have already been started, as also a certain number of co-operative sale societies.<sup>1</sup> This is, however, an enormous task, and the progress made so far has been slow. Co-operative supply has not made much advance as business is on a small scale and there is an absence of efficient management and adequate staff for supervision.

The principle of co-operative insurance has so far been applied only to insurance of cattle; farm-buildings, crops and haystacks being left untouched. But the Committee on Co-operation in Burma (1929) found that these societies were generally in a deplorable condition in that country. The chief obstacles to success are the social disintegration of the village, prevalence of virulent cattle epidemics like rinderpest, and difficulty of management and finance. The development and extension of co-operative insurance in our agricultural system must, however, be steadily aimed at. Reference may also be made to cattle-breeding societies for improving the quality of cattle and for adequate provision of fodder by way of insurance against famine. These societies have not, in general, made much headway though they have achieved some progress in the Punjab. We have already pointed out the obstacles in the way of scientific cattle-breeding (see ch. viii, §§13-14). A few fencing and crop protection societies have already been started, especially in the southern division of the Bombay province, to protect the crops from the inroads of wild pigs and other pests. A small number of co-operative irrigation societies have been established and they offer a promising solution of the water problem in dry tracts where canal irrigation is expensive or impossible. They have achieved notable success in some districts in Bengal and Madras. There are nine land improvement societies at work in the Bombay province.

Another remarkable instance of co-operative activity, to which allusion has already been made (ch. vii, §8), is the work being done for the

<sup>1</sup> We have already dealt with the co-operative sale societies organized for the marketing of agricultural produce. See ch. viii, §22.

consolidation of holdings in certain Punjab villages. The field of co-operative farming has hardly been touched. It is obvious that the successful introduction of improved husbandry demands joint cultivation on a co-operative basis, as in Italy, so long as agricultural holdings continue to be tiny and scattered.

The consumers' movement, which has achieved such striking progress in England, has made very little headway in India, especially in the rural areas. The domestic needs of the rural community are few, and are met mostly either out of local produce or at village bazaars, and the standard of living is so low that distributive co-operation has hardly any scope, even if we ignore other difficulties regarding management, etc. Hope lies only in the general advance of the rural masses and an improvement in their standard of living. There is great scope for dairy societies to supply pure milk at moderate prices, especially to the towns. There are a few such societies scattered about the country but many more are wanted.

The co-operative movement in Indian agriculture is still in its infancy and there is any amount of highly useful work ready for non-credit agricultural co-operation, which, in Denmark and some other European countries, has equipped the peasant so thoroughly as to enable him to compete on equal terms with the capitalist farmer.<sup>1</sup> As Dr Clouston says: 'The good work done by the cotton sale societies in Bombay, the irrigation and milk societies in Bengal, the co-operative seed societies and dairy societies in the Central Provinces, and the societies for the consolidation of holdings, clearance of silt in canals and sale of farm produce in the Punjab, encourages one to hope that, given the necessary organizing staff, co-operation will play in course of time as great a part in assuring the cultivator of the full return of his labour as it has in providing him with cheap capital.'<sup>2</sup> In order that the Government may help this consummation more effectively, one of the reforms needed is a closer co-ordination of activities between the Co-operative Department on the one hand, and the Agricultural and Veterinary Departments on the other. Indeed, co-operative societies promise to be the best agency for the propagandist activities of the Agricultural and Veterinary Departments. It is only through a wide development of non-credit co-operation that the teaching of the expert can be brought to the masses, who could never be reached individually by any official organization.<sup>3</sup> A movement in this direction has been made in Bombay through the District Village Uplift Committees, Taluka Development Associations and the Provincial Rural Development Board (see also ch. xi). These associations have been doing propaganda for introducing improved methods of agriculture and for improving the breed of cattle and poultry. Several of them are taking part in the rural uplift movement. A few Better Farming Societies have recently been established and it has been suggested that intensive work

<sup>1</sup> See H. D. Irvine, *The Making of Rural Europe*, p. 195.

<sup>2</sup> *Review of Agricultural Operations in India* (1926-7).

<sup>3</sup> *Agricultural Commission Report*, par. 386.



in regard to agricultural and other improvements would be more effectively performed by a Better Farming Society working in a restricted area than by a Taluka Development Association whose activities extend to a whole taluka. Better Farming Societies are also found in the Punjab and Madras. In this connexion mention may be made of what are known as the Better Living Societies. Good work has been done under their auspices as part of the rural reconstruction programme in the United Provinces and the Punjab. These societies were first developed in the Punjab and attention was principally concentrated on the moderation of expenditure on marriage and other ceremonies. With the assistance of these societies roads have been improved, public wells have been dug, tanks have been cleared, dispensaries have been established, schools opened, propaganda for curtailment of ceremonial expenditure has been conducted, village sanitation improved, better seed distributed, better methods of cultivation introduced, and the breed of cattle has been improved. Better Living Societies have made some headway in Bengal also.

§15. Non-credit non-agricultural societies.—Though this movement has not yet gained sufficient strength, some progress has already been made in the different provinces. As the Maclagan Committee found, 'successful attempts have been made to arrange for the purchase of yarn and silk for weavers, cane for basket-makers, timber for carpenters, and implements (sometimes of improved pattern) for several industries, the production and sale of cotton and silk cloth, durries, and furniture. Building societies have been organized. The purchase and sale of most sorts of common necessities is being carried on at various co-operative stores.'<sup>1</sup> We may now discuss the various types of non-credit non-agricultural organizations.

(i) *Artisans' societies for purchase and sale.*—As in the case of the farmer so in that of the artisan, not only credit but also other needs, such as purchase of raw materials and marketing of finished products, must be organized on a co-operative basis for the improvement of the economic condition of our cottage industries. The hand-loom industry offers an excellent field for co-operative organization directed towards the attainment of such objects as wholesale purchase of raw material, the employment of improved looms and implements and the direct sale of cloth to the consumers. The co-operative industrial exhibitions held at various centres give a good idea regarding the range and variety of such co-operative products. In Bombay, the importance of co-operative weaving has been recognized by the Government, who are running a few weaving schools under the supervision of the Co-operative Department. A more notable measure adopted in 1935 in furtherance of the hand-loom industry is the establishment of District Industrial Co-operative Associations at important centres in the province to supply raw materials at reasonable rates and to accept on consignment account against partial payment hand-loom products from weavers and to purchase outright hand-loom products and

<sup>1</sup> Maclagan Committee Report, par. 10.

themselves were not financing bodies. The Maclagan Committee strongly recommended the establishment of a guaranteeing union where there were primary societies and central banks. They considered that it was indispensable where there was only a provincial bank dealing directly with primary societies. The guaranteeing unions started on the lines of those in Burma did not prove a success in Bombay, partly because in most cases the so-called guarantee was nominal and partly because, funds being limited, no competent supervisor could be engaged. The work of the committee was often irregular and inefficient. It was therefore decided to encourage only the supervising unions, as in Madras, covering large areas and in a financial position to provide for efficient supervision.

In 1936 the Government of Bombay launched a new scheme of strengthening the system of supervising unions by insisting on better qualifications for the supervisors and by creating district boards of supervision to ensure proper and efficient working of the unions on the recommendations of the Supervision Committee (1934). These Boards have been given wide powers under the by-laws, the most important of which is the suspension of the Managing Committee of an affiliated society. They are expected also to serve as stabilizing forces in the structure of agricultural co-operation.<sup>1</sup> The inspectors appointed by central banks also assist in the work of supervision.

While the need for better supervision has been recognized by successive committees and commissions, no uniform guidance is available as regards the most suitable agency for undertaking this work, and different provinces have developed different systems of supervision. Broadly speaking, the work of supervision is undertaken either by the Government through the Co-operative Department as in the North-West Frontier Province, or by special types of co-operative supervising institutions as in Bombay, Madras, the Punjab and the Central Provinces, or by both. Generally it is arranged through local supervising unions, district supervising boards or federations, divisional and provincial co-operative institutes, and central financing banks or some combination of these. In Bombay and Madras there are special arrangements for supervision of special types of societies, such as the non-credit and Scheduled Classes societies, by the Departmental staff.

Nowhere has the system of supervision been found to be fully satisfactory. In many provinces the supervision provided is superficial and in several it overlaps with the work of inspection done by the staff of the financing agencies.<sup>2</sup> The co-ordination of different agencies for supervision and inspection is engaging the attention of the Department in Bombay.

In 1937 the Agricultural Credit Department of the Reserve Bank of

<sup>1</sup> *Report of the Supervision Committee (1934) and Registrar's Annual Report (1936-7)*, par. 40.

<sup>2</sup> *Review of the Co-operative Movement in India (1939-40)*, pp. 71-3.

India reported on the Banking Union at Kodinar (Baroda State)<sup>1</sup> and made suggestions about its applicability elsewhere. A Banking Union of that nature, in addition to finance, would take over the functions of the supervising union, and a supervising union which is working satisfactorily and has good primary societies affiliated to it could be considered suitable for conversion into a Banking Union on the lines suggested therein, provided such a Banking Union is able to supplement its resources, if necessary, direct from the apex bank.<sup>2</sup> This proposal has not generally been received with favour in co-operative circles, mainly on the ground that it would not make for economical and efficient working and might not command the confidence necessary to attract adequate deposits.

§19. Central co-operative banks.—Central co-operative banks are in general the higher financing agencies necessary in a country like India where the capital raised locally by the primary societies requires to be largely supplemented from outside and distant money markets. Hence arises the necessity of establishing higher federations, or financing institutions like the central and provincial banks, which will successively connect the primary societies with the most remote towns and which will make their monetary resources available as the working capital of such societies. Such a special co-operative financing mechanism is necessary, first, because rural finance requires large amounts of comparatively long-term capital, and secondly, because the ordinary joint-stock banks carrying on their business only in a few important towns cannot be persuaded to issue loans to distant rural societies of which they know next to nothing, even if they were in a position, which generally they are not, to issue long-term loans to finance agricultural production. The underlying idea of the financial distributory system is that the resources of the society at large should be made available to thousands of small cultivators who need accommodation.

The central bank serves as a balancing centre for adjusting the excesses and deficiencies of the working capital of the primary societies under its jurisdiction. It raises the additional capital required by the primary societies and lends it to them either directly or through guaranteeing unions where these exist. In some cases, the central bank may undertake organization and supervision of societies, specially if, as is usually the case, they are its shareholders. The central bank, however, is essentially a financing agency. Besides financing the affiliated societies, most central (and provincial) banks do other banking business, such as the accepting of deposits of various types, collecting bills, cheques, hundis, dividend warrants and railway receipts; issuing drafts and hundis, safe custody of valuables, purchase and sale of securities, etc.<sup>3</sup> The area of its operation varies widely from a taluka or tahsil in some provinces such as Bengal,

<sup>1</sup> See Nanavati and Anjaria, *The Indian Rural Problem*, pp. 406-10, and Nanavati's 'Note on the Organization of the Kodinar Banking Union'.

<sup>2</sup> *Agricultural Credit Department* (Reserve Bank of India) *Bulletin* No. 1.

<sup>3</sup> *Review of the Co-operative Movement in India* (1939-40), p. 11.

Bihar, Orissa and the Punjab, to a district or several talukas in other provinces such as Bombay, Madras and the Central Provinces. Too small an area leads to unduly heavy cost of management, while too large an area leads to inefficient supervision. In every case, effort must be made to strike the golden mean between the two extremes.

Central banks are broadly of two types: mixed and pure, according to their constitution. Mixed central banks, consisting partly of societies and partly of individuals, offer special facilities to the former regarding share capital and representation on the board of management. Such types of banks are acceptable as a step leading to the realization of the ideal federal type, namely a central bank having a membership confined to societies. The mixed central bank, while enlisting the advice and help of well-to-do expert businessmen and members of the middle classes, safeguards the interests of societies and can itself be transformed into the ideal type of pure central bank in which individual members are completely eliminated. The mixed type is the most suitable under the present circumstances in India, and is favoured in almost all the provinces. The ideal federal type, though theoretically the best, labours under certain handicaps, namely, inability to be entirely self-dependent in the matter of supplying the necessary business ability and failure to interest the middle classes and therefore to attract sufficient resources to finance primary societies. In some provinces such as Bengal and the Punjab, there is a growing number of purely federal central banks generally known as banking unions.

There were in British India and Indian States 599 central banks including Provincial Banks and banking unions with a membership of 215 thousands in 1942-3.<sup>1</sup> As regards the sources of the working capital, though share capital is an important item (about 9 per cent), deposits from individuals and societies constitute the bulk of working capital (about 59 per cent). Loans from provincial banks constitute 14 per cent, and reserve and other funds 14 per cent. In 1944-5, the working capital of central banks stood at Rs. 39.8 crores.

The borrowed funds are about 77 per cent of the working capital.<sup>2</sup> In view of the large deposit liabilities of central banks it is necessary for them not only to have adequate cash reserves or fluid resources, a point on which the MacLagan Committee laid special, and as many would have it, exaggerated emphasis,<sup>3</sup> but also to attract a sufficiency of long-term

<sup>1</sup> *Statistical Statements Relating to the Co-operative Movement in India for the years 1941-2 and 1942-3*, p. iii.

<sup>2</sup> Though the ratio of owned funds to the working capital does not appear to be unsatisfactory, the real position as judged from the composition of the reserves in respect of some central banks may be less satisfactory. The reserve funds are sometimes created without making adequate provision for bad debts and may turn out on examination to be at least partly fictitious. *Review of the Co-operative Movement in India (1939-40)*, p. 11.

<sup>3</sup> See *MacLagan Committee Report*, par. 18. Mehta, op. cit., p. 132, and *Statutory Report on Agricultural Credit* (Reserve Bank of India), par. 22.

deposits. The same point was emphasized in 1937 by the Agricultural Credit Department of the Reserve Bank of India in its Statutory Report on Agricultural Credit and circular letters issued to provincial co-operative banks (see §23 below). Central banks should so adjust their loans to primary societies as to ensure adequate repayment for the return of deposits when they fall due. Almost 90 per cent of the borrowed funds of the central banks are given out in the form of loans. The central banks are thus working on a low scale of fluid resources. Overdues form a fairly large proportion of the outstandings of central banks. Bad debts, in not a few instances, may exceed the owned funds of the central banks. In general, central banks in Bombay, Madras and the Punjab are in a comparatively sound position, but in some of the other provinces, particularly Bengal, Bihar, Orissa and the Central Provinces and Berar, their condition has been disquieting. About ten years ago many central banks in these provinces had to close their doors owing to their inability to meet the withdrawals of deposits. The failure of central banks in these provinces was the result of reckless over-financing of societies, inefficient supervision, and disregard of sound principles of banking in conducting their business, as well as to faulty organization of the primary units.<sup>1</sup>

To impart elasticity to the operations of the banks, provision of facilities such as cash credits and discounting of their co-operative paper is necessary. Owing to their long standing, several central banks now possess sufficient resources to be independent of outside financial assistance, but they all continue credit arrangements, mainly with the provincial banks, on which they rely for emergencies. This brings us to a discussion of the nature and utility of provincial co-operative banks.

§20. Provincial co-operative banks.—To enable them to perform their functions properly in relation to the growing number of co-operative societies, the central banks require the help of a provincial apex bank to co-ordinate and control their working, serve as a clearing house to balance the excesses and deficiencies of their working capital, and act as the financial centre of the whole province. It would also extend to central banks the facilities of cash credit and discounting referred to above. The joint-stock banks cannot be depended upon in this matter as they are unable to accept the particular security offered. The provincial bank is also a useful link between the general money market and the joint-stock banks in the towns on the one hand, and the primary rural societies on the other. In this connexion, reference may be made to an interesting development in Bengal of making the surplus co-operative money accumulated in the provincial bank in the slack season of agriculture available for the needs of outside trade and commerce through the joint-stock banks, to the advantage of both parties. The provincial apex banks should not deal directly with societies except in the case of special types of socie-

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 11-12. For the measures adopted and suggested for the reconstruction of the central banks, see §§26-7.

ties such as land mortgage banks, sale unions, housing societies, etc., but should consolidate and strengthen their position as financing agencies and balancing centres for central banks.<sup>1</sup> Practice in this respect is not, however, uniform. In certain provinces the apex banks do not deal with the primary societies at all, while in certain others (including Bihar, Orissa, Bombay and Mysore) they still continue to finance primary societies in areas where central banks have not come into existence. The provincial bank in Bombay has 31 branches covering the few districts that have no local banks or parts of districts not taken over by local banks for one reason or another.

The constitution of the provincial co-operative banks varies in the different provinces. In Bombay, Sind, Madras, the Central Provinces and Berar, Bihar and Assam, membership is open to individuals as well as to societies, and the Board of Directors consists of representatives of different types of societies as well as of individual members. The inclusion of individuals is necessary at present to ensure the supply of the requisite business knowledge and to tap the deposits in the provincial money market. In the Punjab and Bengal, membership is open to societies only, and the Board of Directors consists exclusively of the representatives of the affiliated central banks, banking unions and other societies. However, in Bengal, the Registrar nominates three directors from non-members.

Provincial apex banks more or less on these lines have been established already in eight provinces: Madras, Bombay, Sind, Bengal, Bihar, the Punjab, the Central Provinces and Assam, and in two of the Indian States, Mysore and Hyderabad. Out of these the Bombay Provincial Bank, started in 1911 as a central bank, is unanimously pronounced to be the most efficient, and its activities are multifarious. There is no form of co-operative development or endeavour, whether of finance, propaganda or supervision, in which it does not take part. The Bank has a solid record of valuable work to its credit since it came into existence and occupies a unique position in the co-operative hierarchy.

The owned funds of provincial banks form less than 20 per cent of the working capital, and borrowed funds (deposits from societies and central banks, from individuals and other sources, and loans from Government) form about 80 per cent. Adequate provision has, however, not always been made for bad debts, and the amount of real surplus assets would accordingly be less than the figure of reserves would suggest. On the whole however the financial position of the provincial banks with some exceptions is much better than that of the central banks. The example and initiative of the provincial banks has been responsible for the increasing application of banking principles to the co-operative movement. Regarding necessity of a cash reserve, and provision of facilities such as cash credit and rediscounting of co-operative paper discounted in the first instance by the provincial bank, the same considerations hold good as in the case

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, par. 159.

of central banks. The suggestions made by the Reserve Bank of India for the reorganization of the Central and Provincial Co-operative Banks, in its Statutory Report on Agricultural Credit, are reviewed in a later section (see §27).

§21. Is an all-India co-operative bank necessary?—The Maclagan Committee recommended that in addition to all the foregoing types of financing agencies, an all-India co-operative bank should be established to provide the provincial banks with facilities for rediscounting so as to give their finance that elasticity without which the stability and progressive development of the movement would be difficult.<sup>1</sup>

Since the Maclagan Committee reported, opinion on the necessity or desirability of an all-India bank has undergone considerable change. The new factors in the situation are the substantial amounts lying unutilized with the provincial banks, most of which hold fluid resources in excess even of the very high standard suggested by the Committee of 1915; the assurance of financial accommodation which many of them have succeeded in obtaining from the Imperial Bank of India or other banks, the fact that co-operation is a provincial subject and the provinces are anxious to retain full liberty to develop along their own lines without being fettered by any external authority such as an all-India bank, and lastly, the introduction of the spontaneous and healthy system of inter-lending which the various provincial banks have developed, being assisted in this matter by the Indian Provincial Co-operative Banks Association. Moreover, now that the Reserve Bank of India has been established, the need for an apex bank for the provincial banks is no longer felt, as the provincial banks are provided by the Reserve Bank with rediscounting and loan facilities. There is no need for an apex bank for the present system (see §§22–3).

§22. The Reserve Bank of India in relation to agricultural (co-operative) finance.—Since the inauguration of the Reserve Bank of India<sup>2</sup> on 1 April 1935, great expectations regarding the financial assistance it can extend to agriculture have been raised in the country.<sup>3</sup> The Bank is allowed to purchase, sell and rediscount agricultural bills and promissory notes endorsed by a scheduled bank or a provincial co-operative bank, drawn for the purpose of financing seasonal agricultural operations, or the marketing of crops, and maturing within nine months. It should be noted that in the case of commercial bills the period allowed is only three months. This is a concession in favour of agriculture, since the cycle of agricultural finance is longer than that of commercial finance. The Reserve Bank is further authorized to make loans or advances for ninety days to provincial co-operative banks and central land mortgage banks declared to be provincial co-operative banks and through them to co-operative

<sup>1</sup> *Report*, pars. 219–29.

<sup>2</sup> The question of the Reserve Bank has been dealt with in vol. II, ch. xi.

<sup>3</sup> See §§17 (2) (b), (4) (a), (c) and (d) of the Reserve Bank of India Act (1934), also the *Statutory Report on Agricultural Credit* (par. 37) issued by the Reserve Bank of India.

central banks and primary land mortgage banks against the security of (i) Government paper or (ii) approved debentures of recognized land mortgage banks, which are declared trustee securities and which are readily marketable. The Bank can extend advances to provincial co-operative banks for ninety days against the security of (i) promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations; (ii) promissory notes of approved co-operative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops; and (iii) promissory notes of provincial co-operative banks supported by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies.

The Reserve Bank established the Agricultural Credit Department in April 1935 as required by the Act, to study all questions of agricultural credit, offer expert advice to the Government and co-operative banks, and to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with provincial co-operative banks and any other bank or organizations engaged in the business of agricultural credit. As required by the Act, the Agricultural Credit Department of the Bank submitted a Report on Agricultural Credit to the Government of India in December 1937. The Department has also issued so far four interesting and instructive Bulletins on (i) the Banking Union at Kodinār (1937), (ii) Co-operative Village Banks (1937), (iii) Recent Developments in the Co-operative Movement in Burma (1938), and (iv) Co-operation in Panjāwar (Punjab) (1939). It also published (1941) a very lucid and critical *Review of the Co-operative Movement in India*, in order to supplement the Statutory Report, analysing the present trends and the progress achieved so far and indicating improvements.<sup>1</sup>

§23. Role of the Reserve Bank in relation to co-operative banks.—In its Report on Agricultural Credit (1937), the Reserve Bank has clarified the provisions of the Act relating to financial assistance to co-operative banks and indicated its attitude towards them. According to the popular view the Reserve Bank should directly undertake the financing of agriculture. According to the orthodox banking view, however, it is neither desirable nor possible for a central bank directly to finance agriculture either for short or long periods, having regard to the risky and unorganized nature of agricultural business carried on by illiterate and small farmers as in India. The decisions of the Reserve Bank of India relating to agricultural finance have been largely influenced by the orthodox view. Moreover, as the Statutory Report points out, the Reserve Bank is entrusted with the cash reserves or the fluid resources against deposits of all the important banks. These form by far the largest portion of its working capital. The idea underlying this arrangement is that the entire pool of these resources

<sup>1</sup> For further particulars, see *Functions and Working of the Reserve Bank of India* (issued by the Reserve Bank in 1941), ch. vi, pp. 66-79.



may be available in times of emergency. It cannot be locked up in forms of business which the scheduled banks themselves cannot undertake. The Bank is thus a Banker's Bank and cannot lend to agriculturists direct or supply normal finance to any of the credit agencies, which should not therefore rely on the Reserve Bank for doing their business. The correct role of the Reserve Bank is to produce monetary conditions under which there would be adequate facilities for all those seeking credit for legitimate purposes or having funds to invest. The Reserve Bank can come into the picture as lender in the last resort, when the ordinary pool of commercial credit appears inadequate to meet the reasonable business requirements of the country. The same basic principles must be followed in the case of the co-operative banks. These, like the commercial banks, must stand on their own legs and obtain normal finance from deposits and cannot expect the Reserve Bank to supply it as the apex bank of the movement. In granting them the financial assistance which it is authorized to grant under its statute, the Reserve Bank must judge for itself the advisability and expediency according to circumstances. All that the Reserve Bank can do is to help the provincial co-operative banks to tide over a temporary shortage of funds. The Reserve Bank is not at present prepared to grant cash credit facilities to co-operative banks, since there is already provision under the Act for the grant of advances against Government securities to them. It may, however, be urged that the grant of cash credit facilities to provincial co-operative banks is essential to impart elasticity to co-operative finance and keep down the lending rates of co-operative banks.

The Reserve Bank from time to time issues instructions and circular letters to co-operative banks indicating criteria of sound banking, e.g. in May 1938 and June 1939 when *inter alia* it advised the provincial co-operative banks to maintain liquid resources consisting of cash balances with bankers and Government securities which should be at least 40 per cent of their liabilities, and to confine themselves to short-term loans. One of the conditions for obtaining financial accommodation from the Reserve Bank is that a provincial co-operative bank should maintain with the bank cash balances the amount of which should not be less than  $2\frac{1}{2}$  per cent of the demand liabilities and 1 per cent of the time liabilities of such a bank and that it should submit to the Bank periodical statements prescribed for the purpose.<sup>1</sup> Only two provincial co-operative banks have taken advances of small amounts from the Reserve Bank against Government securities on a few occasions since 1933. They had ample resources of their own but approached the Reserve Bank in order to avoid selling securities for meeting what was only a temporary need, and to be able to borrow at the lowest rate.

The problem of agricultural finance is widely different from that of industrial finance, and the special circumstances of India make it all the

<sup>1</sup> *Functions and Working of the Reserve Bank of India*, p. 70.

more difficult of solution. The anxiety of the Reserve Bank to keep its investments liquid and to avoid all risks is also perfectly natural. A way out of the difficulty must, however, be explored, in the direction of establishing special credit machinery on lines adopted in the U.S.A., Australia and England, for meeting the short-term, intermediate, and long-term credit needs of agriculture.<sup>1</sup> It is possible for the Reserve Bank within limits of prudence to establish valuable financial relations with agriculture through the existing agency of co-operative banks and further to extend the scope of its Agricultural Credit Department. Early steps to bring the indigenous bankers directly within the orbit of the Reserve Bank should be taken, as thereby the assistance given to agriculture by the Bank could be substantially extended.<sup>2</sup>

§24. The state in relation to the co-operative movement.—While avoiding undue interference, it is the duty of the state to offer its good offices to act as a friend, philosopher and guide to the co-operative movement, which can be made into a powerful agency of social regeneration. In India, owing to the widespread ignorance of the masses, the long tradition of state interference and the urgency of the problem of rural credit, the Government have very properly and vigorously taken the initiative in the co-operative movement. Equally properly, they have refrained from the policy of financial spoon-feeding, which, as the experience of France shows, does more harm than good. We have already seen that the state has conferred on co-operative institutions certain fiscal and judicial concessions and granted limited financial help to new societies. In Bombay, the Government have extended a guarantee of interest at four per cent on the debentures issued by the Bombay Provincial Co-operative Bank up to a maximum amount of Rs. 20 lakhs. This concession has enabled the Bank to raise the much-needed long-term capital for rural finance at a moderate rate without any drain on the funds of the Government, who are not likely to be called upon to make good the guarantee on account of the safe character of the business of the Bank. In more recent years the Government of Bombay, as also the Government of Madras, have extended similar help to the debentures issued by Provincial Co-operative Land Mortgage Banks.<sup>3</sup> The Government of Bombay have also adopted the policy of advancing takkavi loans for permanent improvements of land through the agency of co-operative societies. It would be sound policy in all the provinces to extend liberal assistance to the more specialized forms of co-operation, such as consolidation of holdings, adult education, irrigation, etc. We have already referred to the establishment of the Agricultural Credit Department of the Reserve Bank of India and its interest in the co-operative movement.<sup>4</sup> A sum of Rs. 15 lakhs out of

<sup>1</sup> The question of long-term credit and the Reserve Bank's attitude towards land mortgage banks is dealt with later in the chapter. See §§28-9, 31.

<sup>2</sup> This question is fully discussed in vol. II, ch. xi, §§4-5.

<sup>3</sup> See §31 below.

<sup>4</sup> See §§22-3.

the total grant of Re. 1 crore for village uplift made by the Central Government in 1935 (March) was earmarked for the purpose of extension and improvement of the co-operative movement in the light of the recommendations made by Mr M. L. (now Sir Malcolm) Darling, I.C.S., in his report on the opening of the Agricultural Credit Department of the Reserve Bank of India. Apart from the subsidy for training given by the Government of India, provincial Governments have also increased their grants to the existing institutions imparting co-operative education. It may be pointed out here that the Government of Bombay launched a co-operative training scheme for the training of departmental staff and the employees of central and urban banks and of the rural development staff.<sup>1</sup> The training of departmental staff has received particular attention in the Punjab, and is conducted by a special educational staff. The Madras Committee on Co-operation in their Report (par. 379) recommended the starting of a co-operative college, to be organized and managed by the Government, for aspirants for employment in the Co-operative Department and for higher posts in big urban and central banks.

Turning to the policy of the Government as regards guiding and controlling the movement, it has been on the whole a sound one. For instance, in negating the demand made in certain quarters for the devolution of some of the duties of the Registrar on to the District Officer, the Government have rightly agreed with the MacLagan Committee, who deprecated excessive official interference and laid down that 'the correct position of servants such as the Collector would be to stand as well-wishers equipped with the requisite knowledge and sympathy and to refrain from having any intimate connexion with the management or assuming any direct financial responsibility'. An exception, however, seems to be implied as regards the relation between the Co-operative Department and the movement of co-operation. While the original policy was progressively to relax the hold of the Department and to make the Registrar ultimately little more than a registering officer as the societies became self-reliant and private enterprise was capable of standing on its own legs, it does not seem to have been consistently carried out. If anything, the position of the Registrar is becoming one of increasing dominance, and the dry-nurse element in his duties is not showing any signs of disappearance. And the MacLagan Committee appeared to put the seal of their approval on this retrograde policy. They held that, in general, the continued development of co-operation in India on any other condition than the permanent maintenance of an efficient and highly paid staff of Registrars could not be contemplated. It is, however, generally agreed that even at the risk of some inefficiency, the policy ought to be to encourage responsible private enterprise and to deofficialize the movement as far as possible and make it more self-reliant. With the inauguration of the Montagu-Chelmsford

<sup>1</sup> *Annual Report on the Working of Co-operative Societies in the Province of Bombay* (1939-40), par. 120.

Reforms in 1921 there was a welcome tendency to liberalize the movement, but since the economic depression of the thirties there has been a reaction, and the tendency is to bring the movement more and more under the control of the Department. One way to make the movement more non-official in character would be to give all possible encouragement to non-official bodies like the Bombay Provincial Co-operative Institute or the Provincial Co-operative Union, Madras, and to delegate to them some of the functions of the Registrar in the matter of supervision, organization and audit of societies and to stimulate them to carry on propaganda by holding conferences, arranging training classes for society office-bearers and the general public, conducting journals and generally devoting themselves to rural reconstruction work. The vital need of the movement is the creation by unofficial federations and other central agencies of their own supervising and controlling staff, the absence or inadequacy of which inevitably leads to official interference. An official audit at suitable intervals may be retained as a healthy check on the affairs of the societies and to ensure public confidence. Official control and guidance are no doubt necessary and will continue to be so for some time to come.<sup>1</sup> And there is nothing wrong in pleading for an increase of the official staff to enable the Department to perform its statutory duties more efficiently and to insist that it should be highly educated, well-trained and well-paid. It is also quite legitimate to urge that in view of his onerous and difficult duties 'the personality of the Registrar is a matter of the greatest importance and that the best man available should be selected for the post'.<sup>2</sup> But officials and non-officials alike concerned in the movement should direct strenuous efforts towards making it self-regulating, self-sufficing and democratic as rapidly as circumstances permit.

§25. Co-operative Institutes, etc.—The Bombay Co-operative Societies Act (1925) recognized the Bombay Provincial Co-operative Institute, which under a non-official president serves to focus the co-operative activities of the province, including the holding of the provincial co-operative conferences. The Institute receives a grant from the provincial Government for its work of training, and for the publication of co-operative literature. Unlike provincial co-operative unions, which are the final federations of all societies, being entrusted with definite duties of audit and supervision and enjoying a definite legal status, the Institute is a body mainly for imparting co-operative education—a function which it shares with the Government. While, however, the Institute is doing useful pro-

<sup>1</sup> Cf. C. R. Fay, *Co-operation at Home and Abroad*, vol. II, p. 39: 'The old view that Government can start Co-operative Societies and then withdraw, I suggest, is false. Once in, always in—somewhere. Sound policy requires that it should enter cautiously and make its progressive assistance contingent on self-help by the membership.'

<sup>2</sup> For an excellent discussion of the qualifications which the Registrar ought to possess and the all-embracing nature of his functions, see *Agricultural Commission Report*, par. 375, and also Strickland, *Report on Agricultural Co-operation in Palestine*, pars. 26-9.

paganda work, it has not yet fulfilled to any degree its additional objects of the systematic study of co-operative problems and of contributing expert knowledge and advice on the more specialized sides of the movement. The Government of Bombay issued a scheme in 1938 for the reorganization of the Institute, providing for a revised constitution under which its main duty would be to impart education to members of co-operative societies and to workers of the co-operative movement, and under which its membership would consist of District Supervision Boards and other federations of co-operative societies. It would also serve as a focusing centre of non-official opinion on various subjects affecting the movement.

An interesting development regarding the progress of non-official co-operative agencies was the establishment, on 1 October 1929, of the All-India Co-operative Institutes' Association, the formation of which was agreed to by the first All-India Co-operative Institutes' Conference in Bombay in September 1929. Its main object is to promote and extend co-operation through the member institutes and to furnish advice and assistance to them on all co-operative questions. The Association started the issue of its own quarterly journal, *The Indian Co-operative Review*, from January 1935. It offers a useful periodical survey of the co-operative movement in the whole of India.

Another all-India co-operative organization is the Indian Provincial Co-operative Banks' Association, which has for its object the furtherance of common interests, especially in matters of finance, legislation and administration.

§26. A critical estimate of the co-operative movement in India.—The co-operative movement in India has not indeed succeeded in curing all the economic and social ills from which the country is suffering today. On the other hand, it has not been altogether barren of results. In the first place, owing to the cheaper credit made available by co-operative societies, much saving, estimated at about a crore of rupees, has been effected by the agricultural and artisan classes, and it is not unduly optimistic to expect that, in the not-too-distant future, this figure will multiply itself many times over, especially if other forms of co-operative organization, intended to provide long-term credit, come into existence. Co-operation, moreover, has substituted a system under which credit is controlled and debt restricted for the money-lender's demoralizing system of dangerously facile credit. (In several places co-operation has successfully undermined the predominant position of the money-lender and compelled him to bring down his rates of interest) In the matter of debt redemption, although much still remains to be done and although it is true that co-operation alone would be unequal to the colossal task of ridding the peasantry entirely of its burden of indebtedness, something has nevertheless been achieved especially by the establishment of land mortgage banks on co-operative lines.<sup>1</sup> The co-operative movement may be regarded as a

*See also*

<sup>1</sup> See §30 below.

new form of communal life to protect the peasant from within and without his gates, in the place of the old communal life of the village which prevented the cultivator from being exploited.<sup>1</sup> Further, with the progress of co-operation, the banking habit is slowly but steadily developing in rural and urban areas and the hoards that were lying unused are gradually coming into fruitful employment. Agriculture, the premier industry of the country, has benefited in a variety of ways by co-operation, which has facilitated the work of the Agricultural Department in popularizing improved seed and cattle, cheap manures and implements and, in general, helping the realization of the ideal of 'better farming, better business and better living'. The gradual development of a truly organic connexion between co-operation and agriculture is pregnant with great possibilities.<sup>2</sup> Co-operation has also made important beginnings in dealing with problems of rural sanitation, provision of suitable medical facilities in rural areas, etc. Finally, the co-operative movement has served to counteract the tendency towards rural depopulation in certain parts of the country.

Societies started for special non-agricultural purposes, though as yet on a small scale, are doing useful work in their respective fields. The condition of factory labourers, depressed classes and employees of all sorts, is being gradually ameliorated under the benign influence of co-operation. Cottage industries, notably the hand-loom industry, are receiving the support and the assistance of the movement.<sup>3</sup>

Not the least important of the advantages of co-operation, in the widest sense of the term, are intellectual and moral, and wherever co-operative societies have been started they have generally not failed to yield these advantages. 'It is difficult to give conclusive evidence of this [moral progress] as the signs of moral progress are too elusive to be pinned down in a statement of facts; but for all that they are unmistakable to close observers of the movement. (Litigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society and in their place will be found industry, self-reliance and straight dealing, education and arbitration societies, thrift, self-help and mutual help.)' (M. L. Darling). The movement has in some cases created a keen desire for education, and even persons fairly advanced in age have been found to seek its benefit. It has also improved the character and the general tone of morality and promoted the development of a feeling of 'all for each and each for all' among the village folk. In short, the co-operative movement bids fair to be a powerful instrument for the revival of the old corporate life of the villages and to restore their vitality.

<sup>1</sup> See Darling, *Punjab Peasant*, fourth edition, p. 248.

<sup>2</sup> See Government of India's Resolution on Co-operation, 17 June 1914, par. 7.

<sup>3</sup> Of the two aspects of the movement, rural and urban, the latter has a much more satisfactory record alike in respect of the magnitude of its operations absolutely as well as relatively to population, the efficiency of management and the quality of service rendered to its constituents.—*Review of the Co-operative Movement in India* (1939-40), p. 80.

It must, however, be admitted that all these benefits—moral, educational, as well as purely economic—have been secured only on a very small scale. For example, much yet remains to be attempted and achieved in the field of non-agricultural co-operation. Even agricultural co-operation is practically confined to the sphere of credit and here too, as Sir M. Visvesvaraya remarked, 'all that has been done amounts only to a scratching of the surface'.<sup>1</sup> Co-operative credit again has generally prospered only where the monsoon is normal. In precarious tracts, overdue loans and failure to repay are distressingly common. Moreover, as the Central Banking Enquiry Committee point out, the credit provided by the co-operative organization is still much too dear for the cultivator in some provinces and it is necessary to take further steps to effect a reduction in the present rates of interest.

It is also clearly necessary that we should frankly recognize, in order to be able to remedy, the various defects in the actual working of the movement in India today, such as unpunctuality of payments, fictitious payments, excessive overdues, defective audit, inefficient control, *benami* loans, nepotism, red-tapism, inelasticity, dilatoriness and inadequacy of co-operative finance, etc.<sup>2</sup> The staff appointed to teach members the true principles of co-operation is itself sometimes ignorant, ill-trained and unfit for the work entrusted to it. Managing committees and presidents are too often allowed to usurp all power, to the detriment of the rank and file of the members; and office-holders and leaders of the movement often display 'an undue delicacy and lack of moral courage in dealing with the faults and misdemeanours' of the members, and put up with serious irregularities in the hope that a Government officer will come one day and put things right. They show a great disinclination to incur the unpopularity attendant on stringent action taken against recalcitrants and the recovery by legal process of overdue debts. The overdues have shown an alarming increase during recent years and are at present the most disquieting feature of the co-operative movement. The grant of excessively generous loans, loans for unproductive purposes and slackness in recovery are important causes of overdues which are everywhere large and have in effect become long-term loans.

Many of the members seem to believe that the co-operative movement is merely a state-managed affair and that it is Government money which

<sup>1</sup> op. cit., p. 185. The Central Banking Enquiry Committee also found that the credit facilities provided by the co-operative movement to agriculturists covered but a very small proportion of their needs (*Report*, par. 169).

<sup>2</sup> For a detailed study of the various weaknesses of the co-operative movement in India, see the *Reports on Agricultural Credit, Functions and Working of the Reserve Bank of India* and the *Review of the Co-operative Movement in India* (1939-40) issued by the Reserve Bank of India, the *Report of the Committee on Co-operation in Madras* (1939-40), the Papers on rural co-operation read at the twenty-fifth session of the Indian Economic Conference and published in the *Indian Journal of Economics*, Conference Number (1941); also Eleanor M. Hough, *The Co-operative Movement in India*, pp. 226-40.

they borrow from their society. The failure of members to understand properly the aims and objects of co-operation engenders in them an attitude of apathy and indifference which is fatal to the movement. They are also apt to take a mercenary view of the society, regarding it merely as a cheaper substitute for the village money-lender, and are thus unable to identify themselves with the movement in the whole-hearted manner that is essential for its success.

As we have seen, the co-operative movement in India owes its origin to Government initiative and not to spontaneous action taken by the people themselves, but the fact that it still remains very largely in official leading strings must be regarded as a radical defect, since the essence of co-operation is self-help. The vital principle and the will to live must come from within and not be supplied by some extraneous agency.

As previously pointed out, the movement received a serious setback with the onset of the depression in the year 1929. Though the depression was the major cause of the difficulties in which the co-operative movement found itself, it also became clear that the movement had inherent defects, which could not be noticed in the period of rapid expansion but which became only too evident in the period of depression. There was a crisis in some provinces including Bihar, Orissa, the Central Provinces, Bengal and Burma. While the crisis made painful adjustments necessary, it also served to focus attention on the difficulties of the movement, which has been passing through a phase of healthy introspection and self-criticism. There is no longer any straining after spectacular triumphs, and solid results are being aimed at more and more. The keynote of the official attitude everywhere has come to be 'consolidation' and 'rectification' rather than 'expansion'. Official boosting of the movement in the spirit of a pedlar crying up his wares has disappeared, and there is instead a genuine desire to find out faults with a view to removing them. Searching inquiries have been carried out in the Central Provinces and Berar, Bihar, Orissa, Bombay and Madras. The Preliminary and the Statutory Reports on Agricultural Credit issued by the Reserve Bank of India, the Bulletins and the *Review of the Co-operative Movement in India* (1941) issued by the Bank have further subjected the co-operative movement to the searchlight of criticism. As a result of these inquiries, schemes for rehabilitation of the co-operative movement have been framed and put in force in the Central Provinces, Bihar and Bengal, and steps are being taken in all the provinces to reconstruct and revitalize the societies through various measures, some of which are noted in the next section. This is all to the good, because it is suicidal to ignore or gloss over the defects in the movement. They must be squarely faced and tackled resolutely. Workers in the movement must not despair because the results so far have not been commensurate with their enthusiastic expectations. They must keep their faith bright in the gospel of co-operation which has after all worked such wonders elsewhere, and labour more strenuously than ever to make it a success in this



country. For as the Agricultural Commission remarked: 'If co-operation fails, there will fail the best hope of rural India.'<sup>1</sup>

§27. Re-orientation of the co-operative movement.—We may conclude our account of the co-operative movement in India by a statement of the principal suggestions made by the Agricultural Credit Department of the Reserve Bank of India in its Statutory Report and the action taken on them with a view to effecting the rectification and reorganization of the co-operative movement.<sup>2</sup> The need for such an improvement has become all the more urgent owing to the contraction of private credit following the Rural Debt Relief legislation in the different provinces.

(i) The overdues and long-term loans of co-operative societies should be separated from short-term loans and placed on a proper footing. To this end, the overdues should be scaled down so as to make their redemption from agricultural profits possible within a period of twenty years. This should be done partly by writing them off from reserves and other funds, and partly by recovery from sale of part of the member's assets, transferring the remainder to a special agency like the land mortgage banks. This procedure is less objectionable than the policy of withholding further finance or wholesale liquidation of societies in arrears.

The general method of the reconstructive programme was to examine the loans due to the societies with a view to scaling them down to the paying capacity of the borrowers and to make these reduced amounts repayable in instalments within a number of years. An essential part of the rehabilitation programme was the supply of fresh finance, preferably in kind, to retained members of co-operative societies for cultivation and other necessary expenses on a controlled basis of repayment in kind, the provincial Governments often extending the necessary assistance through the provincial banks. A large number of crop loan societies have been organized in Bengal and Berar to help the agriculturist to obtain finance for seasonal agricultural operations, since the existing village societies are unable to extend fresh credit for the purpose. Central banks are also being reconstructed in some of the worst-affected provinces with a view to adjusting their assets and liabilities and reorganizing their operations.

(ii) Co-operative societies are advised to build up strong reserve funds by providing for an adequate margin between their borrowing and lending rates. This would enable them to tide over unfavourable seasons when their members are prevented from repaying the loans and to meet the losses thus caused. While such a practice would undoubtedly strengthen the financial standing of co-operative societies, there is at the same time

<sup>1</sup> *Agricultural Commission Report*, par. 371. '... in spite of its past failures the movement can be developed, so as not only to fulfil the narrow function of finance but also to become the chief instrument of rural reconstruction in India.' Foreword by Sir Manilal B. Nanavati to the *Review of the Co-operative Movement in India* (1939-40).

<sup>2</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 15-35.

some justification for the criticism that the proposal, if adopted, would lead to the charging of high interest rates which it would be beyond the capacity of agriculture to pay.

(iii) Loans should be restricted to cultivation expenses including limited advances for supplying intermediate credit for such purposes as the purchase of cattle and implements. Loans for other purposes, which though not strictly productive are absolutely necessary, should be reduced to a minimum, and should not be beyond the capacity of the agriculturist to pay. To this end the agriculturist should be prevented from borrowing from more than one source and his total future liability should be limited in terms of a suitable multiple of land revenue or on the basis of the average value of land.

(iv) The primary credit society, which is the pivot of the whole co-operative movement, should be reconstructed on sound lines as indicated in the Reserve Bank's Bulletin on village banks. It should work as a multi-purpose society and aim at bringing the entire life of the cultivator within its ambit. It should build up its own funds with shares and reserves and attract deposits from members by teaching the lesson of thrift and prudence to them. We have already referred to the action taken on this recommendation and the establishment of multi-purpose societies in some of the provinces (see §13 above).

(v) Primary societies should be federated into small Banking Unions (as at Kodinar in Baroda State), which will be able to concentrate in their hands all the functions of finance, supervision, and education for which different agencies are employed at present resulting in a diffusion of energy and waste (see §17 above).

(vi) Co-operative marketing should be developed by making a start from the bottom. With this object in view, primary societies should be induced to take up joint marketing of agricultural produce raised by their members. They should be linked up with larger central sale societies. We have already referred to the new marketing scheme in the Bombay province.

(vii) The existing central and provincial co-operative banks should be re-organized. The large and unwieldy central banks should be split up into suitable banking unions, even if the central co-operative bank is to be retained. The central banks should begin to take a more intimate interest in the work of the societies affiliated to them, supervise and guide their operations, assist them in training their members in the principles of co-operation and generally in improving their working, so as to enable them to raise the moral and material standard of their members. The provincial co-operative bank should also play a much bigger part in the direction and guidance of the movement in the whole province. Both these types of banks should maintain sufficient fluid resources to provide for the withdrawal of deposits, build up adequate reserve funds and make a strict provision for setting out overdues in the balance sheet in such a way as to present a true picture of their condition. Co-operative banks

should establish closer contact with first-class commercial banks and take the latter's advice in re-organizing their business, and have some professional bankers on their boards. They should also make adequate provision for the training of their staff.

(viii) Provision should be made for the intensive training of the co-operative staff in co-operation, rural economics and the theory and practice of banking. Special importance should be attached to the proper training of the Registrar who forms the foundation of the whole movement.

#### LAND MORTGAGE BANKS

§28. The need for land mortgage banks.—In order to bring about the permanent release of the agriculturist from his indebtedness, loans for sufficiently long periods are necessary. They are also required to enable the agriculturist, big and small, to effect costly but profitable improvements. Co-operative societies are unable to meet adequately either of these requirements and the utmost they can be expected to do is to supply the needs of the agriculturist for short and intermediate credit. They cannot afford to lock up their funds for long terms, and yet the cultivator badly needs long-term loans for various purposes. The Raiffeisen type of village bank is not intended to meet the requirements of the large landed proprietor who forms the money-lender's easiest and readiest prey. Moreover, the ordinary commercial banks and money-lenders cannot afford to tie up their capital for long periods nor to recover the loans in small dribbles out of the earnings or savings of the borrower. Hence arises the need for special types of credit institutions generally called 'land mortgage banks'. These banks are intended to displace not only the money-lender but also the present unsatisfactory system of state loans and, by lowering the rates of interest, to bring many productive improvements within the reach of the landholder.<sup>1</sup>

§29. Three types of land mortgage banks.—Land mortgage banks may be co-operative, non-co-operative, or quasi-co-operative. So far as relief to small agriculturists and owners of small holdings is concerned, the co-operative type is the most suitable, being based on mutual association and guarantee of the property mortgaged by the members. However, the type which is largely in vogue in India is the quasi-co-operative variety. Although there are substantial elements of co-operative theory and practice in all land mortgage banks, they are conceived of as limited liability associations of borrowers with a few non-borrowing individuals thrown in to attract initial capital as well as the business talent and organizing capacity needed to make the management efficient. Moreover the valuation of lands is effected by trained officials lent by the Government and loans require the previous sanction of the Registrar. The Reserve Bank stresses the danger of relying too exclusively on institutions of a co-operative character. Their directorate and management represent the

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, pars. 381, 384.

would be borrower too exclusively and offer inadequate security to lenders. The quasi-co-operative type that is now being established in Bombay and other provinces (see §§ 30 and 32 below) should go a long way in meeting the danger pointed out by the Reserve Bank. The non-co-operative or commercial land mortgage bank is better suited to finance big landlords or zamindars.<sup>1</sup>

§30. History of land mortgage banks in India.<sup>2</sup>—As early as 1863, a company called the Land Mortgage Bank of India Limited, with the subtitle of *Crédit Foncier Indien*, was registered in London, being based on the model of the French *Crédit Foncier*. The bank, which had a flourishing career for about twenty years, gradually declined owing, among other reasons, to its large advances against tea (the price of which was then going down), the non-fulfilment of its expectation regarding the extension of Permanent Settlement to the whole of the country, and the appearance of rivals like the loan offices in Bengal which began to advance money to the landlords. The unsuccessful project of a land bank for the Poona district suggested by Sir William Wedderburn in 1883 has been already described.<sup>3</sup> Sir Frederick Nicholson held (1895) that land banks were neither suited to nor needed by the ryots of the Madras Presidency. Sir Dinshaw Wacha, however, was a strong advocate of land banks of the Egyptian type, which he regarded as affording the only satisfactory solution for the problem of indebtedness. In 1919, Sir James Meston, then Finance Member, spoke in favour of land banks started very largely by local enterprise and maintained under local supervision and control by groups of intelligent landlords; but, at the same time, he pointed out that it was not advisable for the Government to undertake work of this sort on a large scale. Most of the earlier schemes, it will be observed, did not contemplate the grant of loans to ryots on the security of their holdings, being for the most part intended for the bigger landlords. Opinion in this respect has, however, changed since, and the establishment of such banks for the benefit of ryots may now be regarded as the official and non-official creed in India, which was also adopted by the Bombay Registrars' Conference in 1926.

The Punjab had the honour of giving the lead in this matter, and its first co-operative land mortgage bank was started in 1920 at Jhang. In the years before the beginning of the depression years the number of such banks increased to twelve. The banks were, however, far from successful, and it is unfortunate that the movement in the Punjab is now at

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, pars. 198-9, and the *Preliminary Report on Agricultural Credit* (Reserve Bank of India), par. 17.

<sup>2</sup> For the earlier history of land mortgage banks; see J. C. Sinha's paper on Land Mortgage Banking read before the Indian Economic Conference, Lucknow, 1928. For their present position see the *Report of the Central Banking Enquiry Committee*, pars. 204-10, notes on the working of land mortgage banks in the several provinces in *The Indian Co-operative Review* (July-September, 1937), pp. 498-501, (April-June, 1941), pp. 265-303, and the *Review of the Co-operative Movement in India* (1939-40), pp. 36-40.

<sup>3</sup> p. 265.

a standstill. No new banks are being started, and very few loans are being granted. The number of old banks has been reduced to ten. The depression with the accompanying fall in land values and the existence of the Land Alienation Act mainly accounted for their failure, to which the defaults of the directors and honorary workers, who were themselves large borrowers, also contributed.<sup>1</sup> Attention is being concentrated on recoveries, and the question of reorganization of these banks is receiving attention from the Government.

Madras came later than the Punjab but has done much better (see §32 below). Bengal, the United Provinces and Assam have also taken steps to inaugurate such banks, and Bombay has already established 18 such institutions in selected districts of the province on the model of the national farm loan associations of the United States.<sup>2</sup> In 1935 the Central Provinces Government established 10 Co-operative Land Mortgage Banks, guaranteeing capital and interest to the extent of Rs. 50 lakhs. Eleven more have since been started. Madras has made the most remarkable progress in this direction and has to its credit over 119 land mortgage banks (see §32 below). Progress is slow in Bengal and the United Provinces, each of which has only 5 land mortgage banks. One difficulty in Bengal is the unwillingness of co-sharers to join in the execution of land mortgage bonds. Splitting-up of holdings and high lending rates are other difficulties. Assam has 5 land mortgage banks and Orissa 1. Certain Indian States such as Mysore, Baroda and Cochin have also established similar banks. The movement for the establishment of land mortgage banks has been considerably influenced by the success obtained by the land mortgage banks (*Landschaften*) in Germany, and the question of introducing banks on this model has received careful study in India, particularly at the hands of the Agricultural Commission, the provincial Banking Enquiry Committees, and the Central Banking Enquiry Committee.

Certain favourable circumstances for the extension of land mortgage banks have prevailed in recent years, especially since the great depression. In the first place, money-lenders in the rural areas are in a mood to compound their dues by accepting smaller but surer cash payments, and a programme of debt conciliation can be carried out by these banks with a view to effecting considerable reduction in debt liabilities. In the second place, abundant supplies of cheap money have been available in the money market on easy terms against sound security.<sup>3</sup> This situation was somewhat adversely affected by the outbreak of the war in September 1939. Debentures of the land mortgage banks are not taken up to the same extent as before by the public, who were naturally hesitant to lock up their money for long periods. There was also a limited tendency for money rates to be hardened. Nevertheless World War II, unlike the war

<sup>1</sup> *Review of the Co-operative Movement in India (1939-40)*, p. 36.

<sup>2</sup> The Government of Bombay have issued orders that no new land mortgage banks should be registered unless the position of the existing land mortgage banks is improved.

<sup>3</sup> See *Report of the Bombay Land Mortgage Committee*, pars. 11-13.

of 1914-18, did not create a tight money market and high interest rates. On the whole, conditions since the depression (1929) have been favourable for organizing land mortgage banks.

At the same time there is need for caution in organizing such banks. They should be established only after the most careful preliminary inquiry, and their constitution and working should be as simple as possible. The management should be efficient and punctual. Defaults committed by a bad bank may endanger the reputation of good banks and destroy public confidence in debentures. No money should be advanced which is not likely to be profitable to the borrower.

§31. State aid to land mortgage banks.—We need hardly emphasize the value of state help for the successful working of the land mortgage banks in India. State assistance may be given in the form of a guarantee for the repayment of both principal and interest, purchase by the Government of a portion of the debentures or bonds pledged against land, declaration of such bonds as trustee securities,<sup>1</sup> grant of special facilities and privileges to the bank as a mortgagee (as in Germany), the grant of concessions similar to those enjoyed by co-operative societies, and subsidies for meeting working costs.<sup>2</sup> In the absence of such state aid, land banks are not likely to be able to sell their bonds in the market at a reasonable price and quote a moderate rate of interest. While the Reserve Bank has expressed its reluctance to purchase the debentures of land mortgage banks at this stage of their development, it has rendered them valuable advice regarding the issue of debentures, provision of sinking fund for their redemption, etc.<sup>3</sup>

§32. The Madras and Bombay schemes.—An examination of land mortgage banks in the provinces of Madras and Bombay, where the technique of land mortgage banking is best developed, will indicate the general lines of the constitution, finance and management of such banks.

(i) *Madras scheme*.—The real beginning of land mortgage banking in India was marked by the establishment in 1929 of the Central Land Mortgage Bank in Madras for centralizing the issue of debentures and for co-ordinating the primary banks established under a scheme of special land mortgage banks sanctioned in 1924-5 by the Government of Madras.<sup>4</sup> Under this scheme the Government undertook to take up half the debentures to the maximum amount of Rs. 2½ lakhs, provided that debentures of at least an equal amount were taken up by the general public. In addition to debentures and deposits (accepted for not less than three years), a portion of the working capital consisted of share capital, the

<sup>1</sup> The amendment of the Indian Trusts Act in 1934 provided for the inclusion of debentures floated by land mortgage banks in the list of trustee securities.

<sup>2</sup> For particulars regarding the assistance given by certain provincial Governments to land mortgage banks, see §32 below.

<sup>3</sup> *Preliminary Report on Agricultural Credit*, par. 21.

<sup>4</sup> See the draft scheme submitted by the Registrar, Madras, in his letter to the Secretary to the Government, Development Department, 1 June 1924.

value of the shares being kept low so as to enable the small cultivator to join the bank. The formation of these banks was confined to valuable wet areas.

A limited area of operation, restricted to a group of villages within six or seven miles from the headquarters of the bank, was considered desirable so as to ensure some degree of mutual knowledge and to facilitate the identification and valuation of the land to be mortgaged to the bank without the help of professional experts. Twenty such banks were established by 1929. Of these only eight issued any debentures. In spite of Government help, the progress achieved by these banks on the whole was poor, mainly owing to their inability to sell their debentures to the public. The Townsend Committee on Co-operation (1927-8) examined their position and found that they could not make any satisfactory progress unless a central land mortgage bank were formed with individuals and primary land mortgage banks as members, to issue debentures as a floating charge on the value of the mortgages transferred to the central land mortgage bank by the primary land mortgage banks. Accordingly the Central Land Mortgage Bank was started in December 1929 at Madras and was calculated largely to remove a serious defect of the Madras scheme, namely a number of scattered, unco-ordinated and small land mortgage banks, flooding the market with competing issues. The Government of Madras have given facilities to the Bank, such as a guarantee for interest up to six per cent on all debentures floated by the Bank in the first five years up to the limit initially fixed at Rs. 50 lakhs—this limit has since been successively raised and now stands at Rs. 310 lakhs—but for the full term of the issues, loan of the services of two Deputy Registrars to inspect local mortgage banks and of ten Sub-Deputy Registrars, in the first instance for a period of three years, to assist in all inquiries on behalf of the local land mortgage banks, and a subsidy of Rs. 25,000 for working expenses. To safeguard their interests, the Government are represented on the Board by the Registrar, who is also appointed trustee to the debenture holders, and by a nominee of the Registrar approved by the Government. Apart from leading co-operators, commercial magnates and public men in the Presidency were included in the first Board of Directors of the Central Land Mortgage Bank, whose debentures evoked a fair response from the investing public. Up to 30 June 1940 the bank had floated debentures to the extent of Rs. 2.64 crores, of which Rs. 1.95 crores were outstanding on that date. On 30 June 1941, the total amount of debentures in circulation amounted to Rs. 2.43 crores.

The Bank's career has been one of fair and steady progress excepting for the lull during 1931-2, which was an exceptional year of severe financial stringency. There were at the end of June 1940, 119 primary land mortgage banks affiliated to the Central Land Mortgage Bank. The debentures are so highly valued that they could be floated at 3 per cent before the outbreak of the war. Following the changes in the money market created by the war, the rate of interest on the debentures was raised by  $\frac{1}{2}$ .

per cent. The lending rate to the primary land mortgage banks was raised to 5 per cent and that to the ultimate borrower to 6 per cent. The 119 primary land mortgage banks in the province cover 18,021 villages and have so far lent Rs. 3 crores to their members.<sup>1</sup> The Madras Co-operative Land Mortgage Bank Act (1934) empowers the Local Government to guarantee the debentures, the principal as well as the interest on them, floated by the Central Land Mortgage Bank and gives the bank effective powers to collect from defaulters, and removes several legal impediments hampering the successful working of these banks.

Madras has thus achieved comparatively the greatest success in the new field of land mortgage banking and serves as a model for other provinces and States.

(ii) *The Bombay scheme.*—In September 1926 the Government of Bombay approved of the draft scheme prepared by Mr J. A. Madan, I.C.S., the then Registrar. The Government approved of the registration of three land mortgage banks for Dharwar, Broach and East Khandesh (Pachora) districts (on the model of the national farm loan associations of the United States) as an experimental measure, to be financed provisionally by the Bombay Provincial Co-operative Bank, and agreed to buy its debentures worth Rs. 2 lakhs carrying 4 per cent interest. The Provincial Bank set up a separate land mortgage department for carrying out its new duties.

The experiment in Broach District proved very encouraging although a scrutiny of the working of these banks by the Bombay Land Mortgage Committee revealed certain defects, such as defective estimates of the repaying capacity of borrowers, in the case of the Pachora and Dharwar banks. But as the Bombay Land Mortgage Committee pointed out, these were not insuperable objections militating against the success of these banks. The Committee therefore strongly urged the extension of land mortgage banks in the various districts of the province and formulated an improved scheme, making provision for the establishment of a separate central land mortgage bank (corresponding to the 'federal land bank', under the American system) for issuing debentures. The Bombay Provincial Co-operative Bank, which receives short-term deposits from the public and serves as an apex bank for the ordinary primary credit societies and district central co-operative banks granting short-term loans, is entirely unsuitable for financing primary land mortgage banks. Besides, the latter is a special type of business which requires distinctive handling and expert staff.<sup>2</sup>

<sup>1</sup> See the *Annual Report of the Registrar* (Madras) for 1939-40, pars. 20 and 21, and article by C. G. Menon on 'The Madras Co-operative Central Land Mortgage Bank' in *The Indian Co-operative Review* (April-June 1941).

<sup>2</sup> See *Report of the Bombay Land Mortgage Committee*, par. 21. The undesirability of provincial co-operative banks undertaking the supply of long-term land mortgage credit is well brought out in an instructive article on 'The Indian Provincial Co-operative Banks' in *The Indian Co-operative Review* (April-June, 1941).



The Government of Bombay gave effect to the recommendations of the Land Mortgage Committee in the year 1935 and a number of primary land mortgage banks have been registered since 1 April 1935. The area of operations has been restricted to places which are less liable to scarcity and famine and where the co-operative movement has made appreciable progress. At the same time steps were taken to constitute a new central land mortgage bank. Accordingly the Bombay Provincial Co-operative Land Mortgage Bank was formally registered on 7 December 1935, under the Bombay Co-operative Societies Act, the late Sir Lalubhai Samaldas being the first president of the bank.

The main functions of the new apex bank are to finance the primary mortgage banks—all of which are now affiliated to the apex bank—by issuing debentures, to inspect their working and to give them advice and help. In the budget session of 1935, the Bombay Legislative Council passed a resolution authorizing the Government to guarantee both the principal and interest of the debentures to be issued by the bank to the extent of Rs. 50 lakhs. During the year ending 30 June 1938 the bank floated the first series of debentures of Rs. 20 lakhs at  $3\frac{1}{4}$  per cent; the second series of debentures to the extent of Rs. 10 lakhs was issued at  $3\frac{1}{2}$  per cent in 1939-40.<sup>1</sup> Arrangements have been made for sinking funds in respect of each separate issue of debentures. The fulfilment of the obligation of the Bank towards the debenture holders is secured through a trustee appointed by the Government. These debentures have been declared trustee securities and appear to be a popular line of investment to insurance companies, banks and private individuals.

The Provincial Land Mortgage Bank advances loans to agriculturists through the primary mortgage banks on the security of their lands. The primary banks have to investigate the title to lands, income, and the repaying capacity of the agriculturists. Loans are given only to members on the recommendations of the Board of Directors of the primary banks, submitted to the Provincial Land Mortgage Bank. The maximum amount of such loans to individual members is restricted to Rs. 10,000. Subject to this maximum no member can receive from the primary bank a loan exceeding twenty times his paid-up share capital in the bank, or half the value of his immoveable property given in mortgage to the bank. No loan can be granted for a period exceeding 20 years. Sanction of the Registrar is necessary for all the loans from the Provincial to primary banks and from the primary banks to individuals in the initial stages. Interest on loans granted by the bank is not to exceed  $1\frac{1}{2}$  per cent over the rate ( $4\frac{1}{2}$  per cent) charged by the Provincial Land Mortgage Bank. The members of the primary banks are thus able to borrow at 6 per cent, a rate substantially lower than the existing onerous rates of interest charged to agriculturist borrowers by money-lenders. This should in itself go a

<sup>1</sup> See the Sixth Report by the Directors of the Bombay Provincial Co-operative Land Mortgage Bank, Ltd., dated 6 September 1941.

long way to reduce the existing liabilities of the debtors. Repayment of the loan is to be either by equal annual instalments of principal, interest being calculated on the amount outstanding from time to time, or by equated annual instalments including both principal and interest. The land mortgages taken by the primary banks are assigned to the apex land mortgage bank as security for the loans advanced by the latter. Thus the security for the bank issuing the loans is ample.

To begin with, loans have been advanced mostly for the redemption of old debts. As long as relief from indebtedness is the immediate and pressing need of the agriculturist, this feature of the business is bound to persist. The bank negotiates with money-lenders and creditors through private conciliation boards, taking advantage of the anxiety of the lender for the repayment of his money in order to effect a reduction in the amount to be repaid. The outstanding loans due from the primary banks increased from Rs. 23.88 lakhs to Rs. 27.93 lakhs in the year ending 30 June 1941.

Apart from the substantial assistance in the shape of a guarantee of both principal and interest on the debentures floated by the Provincial Co-operative Land Mortgage Bank, the Government of Bombay have agreed to grant the following concessions: (a) exemption from (i) stamp duty, (ii) registration fees, and (iii) income-tax on the profits of the bank and dividends on shares, as in the case of other co-operative societies, and (b) the grant of an annual subsidy to cover any deficit which may occur in the working of the bank in the first three years up to a maximum of Rs. 10,000 in the first year, falling to Rs. 6,000 in the third. This is in addition to the cash subsidy of Rs. 5,000 per annum to the primary banks with a view to enable them to meet part of the cost on account of the employment of land valuation officers lent by the Government to the banks. To safeguard their interests and generally to ensure the sound working of the banks the Government are represented on the board of the apex bank by the Registrar, and on the boards of primary banks by a nominee of the Registrar. These concessions have been modelled on the lines now in operation in the Madras province.

The membership of the Provincial Land Mortgage Bank is open to individual persons as well as primary banks and co-operative societies. Although this composite membership is a departure from the strict orthodox co-operative pattern, the inclusion of individual members is to be welcomed, since their presence will ensure better confidence in the bank on the part of the investing public and secure strict adherence to business principles. Any tendency towards dividend-hunting is prevented by the by-laws which require 25 per cent of the net profits to be carried to the reserve fund and restrict the maximum dividend payable on shares to  $6\frac{1}{4}$  per cent. Moreover, provision has been made for giving adequate representation on the board of directors of the apex bank to the primary banks, which are authorized to elect five directors (out of a total of 15), voting by groups in five constituencies.

The membership of the primary land mortgage banks is not restricted to borrowing members only. The non-borrowing shareholders are given separate representation on the board of directors. The by-laws of the primary land mortgage banks provide for the nomination of the board of directors by the Registrar for the first three years.<sup>1</sup>

§33. Operations of land mortgage banks.<sup>2</sup>—The operations of land mortgage banks in India during 1944–5 are illustrated by the following statistics :

Number of Banks or Societies	..	..	..	289
Number of members	..	..	..	138,709
				Rs.
Share capital	..	..	..	51,28,197
Debentures from the public	..	..	..	3,74,59,432
Debentures from Government	..	..	..	5,99,517
Deposits	..	..	..	17,88,377
Reserve and other Funds	..	..	..	28,62,734
Loans	..	..	..	3,01,40,007
Total working capital				7,79,78,264

Loans made to

Individuals	..	..	..	..	39,68,037
Banks and Societies	..	..	..	..	38,77,304
Profit	..	..	..	..	4,98,539

§34. Limitations of land mortgage banks.—There is great need for caution in dealing with this admittedly difficult and delicate problem of rural credit. Great care needs to be taken to avoid bad debts and arrears. 'Where the primary banks are cautious, the provincial bank must be doubly cautious, for it is the financial foundation of the whole organization.'

We must clearly realize certain inevitable limitations of the land mortgage banks. In the first place, it is evident that they cannot transfer to themselves the entire agricultural debt. The maximum limit on loans, and other restrictions on them, which are essential, the possession of the tangible security of land and the careful selection of borrowers in themselves make such a transfer impossible. Secondly, the land mortgage banks can only reduce the burden of debt by transferring it to themselves and by reducing the interest rate : they cannot remove it altogether.<sup>3</sup> Only the prudent cultivator will benefit by the facilities granted for the liquidation of his debts in small instalments. Unless he practices all-round thrift,

<sup>1</sup> See By-laws of the Bombay Provincial Co-operative Land Mortgage Bank, Ltd., and By-laws of the Primary Land Mortgage Bank (Leaflet LL).

<sup>2</sup> Statistical Statements Relating to the Co-operative Movement in India for the years 1941–2 and 1942–3, pp. 32–3.

<sup>3</sup> It is, however, rather an unpleasant revelation that debt conciliation and land mortgage credit, instead of being complementary to each other, are tending to be competitive, and that well-meant debt relief legislation is hampering the progress of

avoids unproductive debts especially for ceremonial expenditure, and makes efforts to increase his earnings, the prospects of the entire elimination of old debts are not bright. In order that the agriculturist should be enabled to improve his earning capacity a comprehensive scheme of economic planning and rural reconstruction is necessary.

The Reserve Bank of India has pointed out<sup>1</sup> the risk which land mortgage banks are running in devoting their almost exclusive attention to the liquidation of old debts of their members. The main purpose of the long-term loans raised on the security of land should be the improvement of land and agriculture and the introduction of better methods of cultivation. These banks are rightly advised to take a greater part in supplying finance, at a lower rate than loans for other purposes, for land and agricultural improvement in co-operation with the Agricultural Department. It is also a good plan that the person, whose debt is to be paid by the land mortgage bank, should be made to serve a period of probation with a good primary agricultural credit society and that even after the land mortgage bank has advanced him a loan he should continue to be a member of a multi-purpose society, so that the regular payment of his instalments may be ensured by a proper supervision of his activities. Some such arrangement is all the more necessary having regard to the unwelcome tendency towards the growth of overdues even in the case of land mortgage banks. Lastly land mortgage banks should establish close contacts with all other agencies working for the economic uplift of the farmer and become part of the wider movement towards rural reconstruction.

§35. Commercial land mortgage banks.—The Central Banking Enquiry Committee and the Agricultural Credit Department of the Reserve Bank of India have recommended the development of well-organized commercial (joint-stock) land mortgage banks in this country for the benefit of the numerous classes of landowners who cannot be adequately served by the co-operative credit organization. Provincial Governments might assist such banks by providing a portion of the initial capital, and by guaranteeing the interest on the debentures issued by them. The need for such mortgage institutions is particularly felt in provinces where Permanent Settlement prevails. Such banks should undertake the redemption of debts of the landlord class and finance their long-term requirements.<sup>2</sup>

land mortgage banks in several provinces. Surely this anomaly should disappear. *The Indian Co-operative Review* (April-June, 1941), pp. 216-17. See also §32 (ii) and ch. ix. §10.

<sup>1</sup> *Statutory Report on Agricultural Credit*, pars 27-30, and *Review of the Co-operative Movement in India* (1939-40), pp. 38-9.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, pars. 233-4, and the Reserve Bank's *Preliminary Report on Agricultural Credit*, par. 19.

## CHAPTER XI

### *THE STATE IN RELATION TO AGRICULTURE*

§1. The evolution of the Agricultural Departments.—The idea of improving agriculture by means of a special Government department was first mooted in connexion with the Orissa famine of 1866. It was later on taken up by Lord Mayo's Government, but materialized only in 1884 as a result of the recommendations of the Famine Commission of 1880, and, let us also add, of the representations of the Lancashire cotton industry which was interested in the growth of long-staple cotton in India. Agricultural Departments were established in the various provinces under Directors, Deputy Directors, Superintendents and Overseers. Although the earlier idea was to take up agricultural inquiry, famine relief and land improvement, little was done beyond a certain amount of statistical work. Unfortunately the Departments were saddled with a good deal of work not properly belonging to them, for example the work of keeping land records and the supervision of land registration. They were further handicapped by the meagre grants allotted to them. We have already referred to the visit of Dr Voelcker in 1889.<sup>1</sup> He held the opinion that Indian agriculture was not so primitive and backward as often alleged, but that it was ill-equipped from the point of view of modern agricultural practice, and he emphasized the value of agricultural education and improvement. In 1892 an agricultural chemist to the Government of India was appointed. The finances of the Departments were in the meanwhile improved by the princely donations given by H. Phipps, an American visitor, and Sir David Sassoon. In 1901 an Inspector-General of Agriculture was appointed to advise the Imperial and Provincial Governments. This for the first time gave the Imperial Agricultural Department the services of an expert head in agricultural matters. The post was abolished in 1912 and its duties were entrusted to the Director of the Agricultural Research Institute, Pusa, who was also until 1929 the Agricultural Adviser to the Government of India. The Pusa Institute was established in 1903, together with a college for more advanced training and special short practical courses. It was in 1905 that, thanks to the tireless zeal of Lord Curzon, the organization of the Departments was greatly improved, they were relieved of the extra work with which they had been burdened, and larger funds were set apart for the development of agricultural experiments, research, demonstration and instruction. The Agricultural College at Poona was started in 1908 together with a research institute to relieve the congestion in the Agricultural classes attached since 1878 to the Science College, Poona. In subsequent years similar colleges were established at Cawnpore, Nagpur, Lyallpur, Coimbatore and, more recently, Bapatla.

<sup>1</sup> *Ante*, p. 203.

As a result of the extension in recent years of the use of agricultural machinery, especially for irrigation, agricultural engineers have been appointed to advise cultivators and to arrange for the installation of the necessary machinery. Lastly, an all-India Board of Agriculture was founded in 1905 with the object of bringing the provincial Departments more into touch with one another, so that they could discuss at their annual meetings programmes of work and make recommendations to the Government of India. The centralized control by the Government of India over provincial Departments was considerably relaxed as a result of the Reforms of 1919, and since 1921 agriculture has been under the control of provincial Governments. The Central Ministry of Agriculture now concerns itself only with agricultural problems of all-India importance, and maintains the following institutions: (i) the Agricultural Research Institute, which was transferred from Pusa to New Delhi in September 1936; (ii) the Imperial<sup>1</sup> Institute of Veterinary Research, Muktesar; (iii) the Imperial Institutes of Animal Husbandry and Dairying, Bangalore and Wellington; (iv) the Imperial Cattle-breeding Farm, Karnal; (v) the Creamery at Anand; (vi) the Imperial Cane-breeding Station, Coimbatore; and (vii) the Sugar Bureau, originally at Pusa, but transferred to Cawnpore in 1931 and placed in charge of a Sugar Technologist. The advisory functions of the Agricultural Adviser to the Government of India, who was previously responsible for the administrative control of these institutions, have been transferred to the whole-time members of the Imperial Council of Agricultural Research, which was established in July 1929 in accordance with the recommendations of the Royal Commission on Agriculture.<sup>2</sup> As recommended by the same body, separate directors have now been appointed for the Imperial Institute of Agricultural Research, Delhi, and the Imperial Institute of Veterinary Research, Muktesar. The post of Agricultural Adviser to the Government of India was abolished in October 1929. The Imperial (now Indian) Council of Agricultural Research has also assumed responsibility for the agricultural publications previously edited by the Agricultural Adviser and the Council of the Pusa Research Institute.<sup>3</sup> Reference has already been made to the creation of the post, in April 1934, of Agricultural Marketing Adviser to the Government of India, who is the head of the central marketing section of the Indian Council of Agricultural Research.

To supplement the work of and co-operate with the Agricultural Departments, certain other bodies have been started, e.g. the Agricultural Associations in the various provinces. In recent years efforts have been made to co-ordinate the work of rural development, including agricultural

<sup>1</sup> For the word 'Imperial' the word 'Indian' has now been substituted in the designation of all these all-India institutions.

<sup>2</sup> See §10 below.

<sup>3</sup> The Research Council at present publishes three journals, *The Indian Journal of Veterinary Science and Animal Husbandry*, *The Indian Journal of Agricultural Science*, and *Agriculture and Live-Stock in India*.

improvement, by setting up in many provinces and States provincial or State rural development or village uplift boards consisting of the heads of Departments connected with rural development such as Agriculture, Co-operation, Irrigation, Industries, Forests, Education, Public Health, etc., and also of non-officials. The best illustration of the policy of using both the Co-operative Department and the non-official machinery for promoting the work of the Agricultural Department is furnished by the provinces of Bombay and the Punjab, where the work of rural development has been transferred to the Registrar of Co-operative Societies, who in Bombay is also designated as the Director of Rural Development (see §7 below). Bombay has, besides, Taluka Development Associations in some of the talukas.

§2. Functions of the Agricultural Departments.—The provincial Departments of Agriculture carry on experiment and research on agricultural farms and in laboratories, and organize propaganda to secure the adoption of new methods and improved implements. They also concern themselves with the introduction of new and artificial manures and the production, maintenance and distribution of pure seeds of improved varieties of crops. Demonstrations are conducted on Government farms or fields of cultivators.

In our survey of the principal crops of India, we have already noticed the useful work that has been done by the Agricultural Department, especially with reference to wheat, sugar-cane, groundnut, cotton, tobacco and fodder crops. Jute, potatoes, rice, etc. are some of the other important crops which are engaging the attention of the Department. The following table gives the area in acres under the principal improved varieties of crops in 'British' India and Indian States so far as information is available.<sup>1</sup>

Crop			1928-9	1935-6	1937-8
Cotton	...	...	3,963,991	5,059,932	5,671,559
Wheat	...	...	4,126,905	6,970,855	6,930,068
Rice	...	...	976,913	3,669,097	3,758,947
Jute	...	...	1,143,665	1,121,019	1,781,069
Sugar-cane	...	...	499,890	3,244,336	2,855,379
Other crops <sup>2</sup>	...	...	1,464,528	2,118,424	2,979,041
Total..			12,175,892	22,183,663	23,976,063

The table shows that the area reported to be under improved varieties in the year 1937-8 was nearly double as compared to the area in 1928-9. This has appreciably increased the annual yield of the agricultural crops

<sup>1</sup> *Review of Agricultural Operations in India* (1928-9), p. 14 and *Agriculture and Animal Husbandry in India* (1937-8), p. 15. Figures for 1928-9 and 1935-6 are inclusive of Burma.

<sup>2</sup> Includes groundnuts (417,442), millets (347,200), gram (83,762), potatoes (20,996), etc. in 1937-8.

of the country. This is welcome so far as it goes, but it does not go far enough. The vastness of the ground yet to be covered will be seen when we reflect that, out of the total sown area of 73 million acres under rice, less than four million or 6 per cent is under high-yielding varieties of paddy, though the position in respect of wheat, cotton and jute is more satisfactory. In recent years the area under improved varieties of paddy and sugar-cane has shown a considerable increase thanks to the research work on rice and cane now being done under the auspices of the Indian Council of Agricultural Research. The Advisory Board of the Imperial Council of Agricultural Research at its meeting in March 1942 adopted a proposal to place an additional one million acres under improved varieties of rice in the next three years having special regard to the public demand that India's dependence on Burma rice should be reduced progressively and to the facts revealed in the marketing survey of rice. The relatively satisfactory situation in respect of cotton is due to the work of the Indian Central Cotton Committee which has its own separate finances. This indicates the necessity of creating bodies for the improvement of other crops as well. The Agricultural Commission emphasized the need for such a committee for jute, and it was established in 1936. The All-India Crop Planning Conference (1934) recommended that machinery should be provided for the systematic and continuous study of the problems relating to the cultivation of India's more important crops such as wheat and rice through the agency of special appropriate committees. This recommendation was accepted by the Government. There was a long-standing complaint that the Agricultural Department was concentrating its reforming energies on the export crops, to the comparative neglect of non-export crops like jowar, bajra, fruit and vegetables, which are quite as important both from the point of view of food requirements of the population and the profit of the agriculturist. The Indian Council of Agricultural Research is, however, now devoting increasing attention to some of these requirements, especially the development of fruit-growing. For example, in the Bombay province the Council has financed important investigations on the conditions under which the principal Indian fruits can be stored and transported.

§3. Demonstrations of new methods and improved implements.—In addition to the economic work on crops, research and investigation have been set on foot under departmental auspices bearing on fundamental problems of agricultural chemistry, agricultural bacteriology, plant pathology, mycology and entomology. Among the investigations in progress may be mentioned those dealing with the lime requirements of soils, the reclamation of saline lands, the conservation of soil moisture, dry farming, the fixation of nitrogen, the manufacture of artificial farmyard manure, the nitrification of manures in the soil, the utilization of the sources of natural indigenous phosphates, the detection of adulterants in ghee, animal nutrition, the mosaic disease of sugar-cane, and the control of pests infesting food-grains.



In Western countries the great utility and educative value of agricultural shows and exhibitions is well understood and the enormous expenditure on them is regarded as excellent investment. India has only just begun to realize the importance of holding periodical shows. The first Bombay Presidency Agricultural Show held at Poona in October 1926 was the largest ever held in Asia. Besides holding such big shows as frequently as possible, smaller shows for divisions, districts and talukas must also be organized so as to give full recognition to variations in local conditions and needs, and to carry the lessons of the shows to every nook and corner of the country.

The Agricultural Departments are thus doing useful work in various directions and are gradually gaining in knowledge and experience. The progress of reform, however, has been very slow. This is to be attributed to some extent to red-tapism, and this the Agricultural more than every other Department must endeavour to shake off. More important reasons, however, are the inadequacy of the capital at the command of the agriculturist, the insufficient irrigational facilities and the general ignorance and conservatism of the people. To these must be added the paucity of funds placed at the disposal of Agricultural Departments. The net expenditure of the Central and the Provincial Departments of Agriculture amounted, during the year 1939-40, to less than Rs. 3 crores as compared to the total expenditure of about Rs. 214 crores, which means that a very small percentage of the revenues of the country is spent on the development of its chief and basic industry. This stands in marked contrast with the very liberal expenditure on agricultural improvement in foreign countries, such as the United States of America and Japan. The improvement in the budgetary position before the outbreak of the war in 1939, the lively interest in agricultural matters shown by Lord Linlithgow as Viceroy, and by the Ministers of Agriculture in the Congress Governments in the provinces (before their resignation in 1939), the urgency of new agricultural problems created by the war and the present food scarcity have galvanized the Agricultural Departments into unwonted activity.

§4. Other items of state aid.—Other items of state aid may be briefly reviewed.

(i) *Land policy*.—The salient features to be noticed in this connexion are the security of title to the land conferred upon agriculturists and the protection granted to tenants in zamindari and more recently in other areas by special legislation. (See chapter xii.) Among other privileges conferred by the state on the cultivator has been that of freedom of transfer which, however, as we have seen, has not proved an unmixed blessing and has had therefore to be restricted by special legislation. Land revenue policy will be examined in a separate chapter. State assistance in the shape of direct Government construction of irrigation works and the grant of takkavi loans to enable the agriculturist to undertake various permanent improvements on his own behalf have already been discussed.

(ii) *Tariffs*.—One aspect of tariff manipulation, namely, export duties on food-stuffs, raw materials and manures, has been discussed and the bearing of the various proposals in this connexion on agricultural prosperity has been made sufficiently clear. As regards import duties, the question assumed some importance in the years before the 1939–45 war owing to the competition of Australian wheat in the Indian markets. The Wheat Import Duty Act of 1931, which was renewed in subsequent years, was intended to give relief to the Indian wheat-grower. A more important case is that of the Indian sugar industry, which has already been examined above. The refined sugar industry is of sufficient national importance to justify the protective import duties levied in 1932 as recommended by the Tariff Board. The Indian rice-grower also had to be protected against the imports of cheap broken rice by the levy of an import duty in 1935. The present food shortage has completely changed the nature of the problem. Far from discouraging imports of foodstuffs, India is desperately anxious to secure them at almost any price.

The part played by the state in the spheres of credit equipment, co-operation, and marketing has already received detailed treatment in previous chapters.

§5. *Agricultural education*.—The general principles governing the problem of rural education in its relation to agricultural efficiency have been already indicated. It now remains to give some account of the educational machinery provided by the state.<sup>1</sup>

(i) *Agricultural colleges*.—There are at present six colleges established in different provinces, viz. at Poona, Coimbatore, Bapatla, Nagpur, Cawnpore, and Lyallpur, and more are likely to be started all over the country in the near future. These colleges are intended to train the future personnel of the Agricultural Departments as well as to provide teaching in modern methods for those actually engaged or intending to engage in farming, either as land-owners or agents. Moreover, they are the provincial centres for scientific research in agriculture. Apart from full degree courses, the colleges also provide short courses of one or two years leading up to a diploma or certificate in agriculture. These courses are meant for practical agriculturists, but incidentally they also afford a recruiting ground for appointments to the subordinate agricultural service. Post-graduate training in agriculture is provided for at the Indian Agricultural Research Institute, New Delhi.

(ii) *Agricultural middle schools*.—The agricultural vocational middle schools are intended to give special training to the sons of farmers. Agricultural middle schools are, strictly speaking, technical or craft schools providing a course in agriculture of a practical character, and receiving pupils at about the age of 13 after they have undergone a course of general

<sup>1</sup> For a detailed account of the system of rural education prevalent in India, see *Agricultural Commission Report*, Minutes of Evidence, vol. I, pp. 114–18, Memorandum of J. A. Richey, Educational Commissioner with the Government of India; *Report*, ch. xv; *Agriculture and Animal Husbandry in India* (1937–8), pp. 242–53.

education. In these schools, education is imparted in the local Indian language. The object is to send the pupils back to their land so that they may utilize their training in cultivating it more efficiently, but it is feared that this object is generally not attained. Other complaints are that admission to these schools is not sought by agriculturists with any noticeable eagerness, that they are too expensive and are an artificial addition to the educational system and in no way a natural development of it, though Bombay claims that these schools have proved a success.

(iii) *Agriculture as a subject in the general curriculum.*—Practical instruction in agriculture is not attempted in the primary schools, which are content with providing for simple nature study intended to create a general bias in favour of life in the villages. Agricultural or Rural 'Bias' Schools are being increasingly recognized to be an important step towards adapting the educational system to the needs of the rural community, and in the Punjab and the United Provinces definite action has been taken to see that teachers are properly trained. Similarly in the Bombay province 93 schools have recently started classes with an agricultural bias, and the majority of students are reported to have taken to agriculture in their respective villages. Further extension of these schools is made difficult owing to lack of trained teachers.

Instead of starting agricultural middle schools like the other provinces, the Punjab has introduced the teaching of practical agriculture in the vernacular middle schools, so as not to debar students taking agriculture from proceeding to a higher stage of education if they desire to do so. Farms are attached to schools where agriculture is taught, and have generally met with considerable success, and the whole scheme is likely to be adopted by other provinces as well. The Agricultural Commission showed marked hostility to the Bombay type of school mainly on the ground of disproportionate expense and a strong preference for the Punjab type as pointing to the true solution of the problem of relating the instruction given in middle schools in rural areas to their environment. They hoped that these schools would develop into rural community centres. As regards high schools in rural areas, the Commission recommended the addition of a more advanced course in agriculture to their curricula. It may be added here that agricultural classes were attached to three High Schools at Satara, Bijapur and Godhra respectively in the province of Bombay in 1939-40. Special agricultural training courses in different aspects of agriculture, e.g. poultry-farming, horticulture, etc., are also arranged for the benefit of cultivators and are becoming increasingly popular.<sup>1</sup>

The reorientation of educational policy on the lines of the Wardha scheme is likely to have far-reaching effects on agricultural education in the country. (See ch. viii, §2 *ante*.)

The account given above shows that although the Government have done something for agricultural development in this country they can

<sup>1</sup> *Annual Report of the Department of Agriculture, Bombay (1939-40)*, pars. 75-6.

do much more. Nor has the educated class yet learnt properly to appreciate the vital importance of agriculture. Social workers have so far devoted almost exclusive attention to towns and their problems. The work started by some societies like the Servants of India Society in backward rural areas is promising, but it needs to be carried out on a large scale. In order to ensure continuity of policy and steady pressure over a long period, work done through properly organized societies is preferable to individual effort.<sup>1</sup> Most Indian universities have hitherto neglected the study of agricultural economics except at the agricultural colleges. As the Agricultural Commission pointed out there are two directions in which the universities can make themselves useful, firstly, in regard to such technical matters as economic surveys of social conditions and, secondly, in imbuing rural communities with ideals of leadership and service.<sup>2</sup>

§6. Village uplift: the Gurgaon experiment.—As the Agricultural commission truly remarked, no substantial improvement in agriculture can be effected unless the cultivator has the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws and good administration may place at his disposal. Of all the factors making for prosperous agriculture, by far the most important is the outlook of the peasant himself. The demand for a better life can be stimulated only by a deliberate and concerted effort to improve the general conditions of the countryside, and the responsibility for initiative in this matter rests with the Government. What is required is an organized and sustained effort by all those departments whose activities touch the lives and the surroundings of the rural population.<sup>3</sup> The sympathy, interest and active support of the general public are also essential. The whole weight of those who seek to guide the villagers should be thrown into suggestions as to how by corporate action they can improve the amenities of the village. In order, however, that the cultivator should revive the ancient tradition of concerted action for the improvement of the village and its surroundings, enlightened leadership is necessary. One way of providing this is by instilling ideals of village improvement into the thousands of village officials and dignitaries such as the patel and patwari. Another solution is the system of village guides introduced by F. L. Brayne in the Gurgaon district in the Punjab. The idea is that it would be an advantage to the cultivators to have some *one* reliable individual to look up to instead of a bewildering multiplicity of agencies. He would act as a channel through which the advice of experts in the various departments would pass on to the villagers.

But village guides will require the constant stimulus of new ideas and

<sup>1</sup> *Agricultural Commission Report*, par. 425.

<sup>2</sup> *ibid.*, par. 426.

<sup>3</sup> *ibid.*, par. 423. Mr Brayne gives an account of the Gurgaon experiment and explains his methods of rural uplift in his books: *Village Uplift in India* (1927), *Remaking of Village India* (1929), *Socrates in an Indian Village* (1929), *Socrates Persists in India* (1932), and *Better Villages* (third edition, 1945).

their work will need to be encouraged and appreciated if they are not to lapse into inactivity. The Gurgaon uplift scheme therefore attempted to supply 'a strong central driving force that will encourage enthusiasm, develop public spirit, and provide suitable material for active workers in their campaign in favour of the improvement of village life'.

In his *Rusticus Loquitur* Mr (now Sir Malcolm) Darling took occasion to review Mr Brayne's work in Gurgaon and make comments, sympathetic in tone, but damaging in substance.<sup>1</sup> The Gurgaon experiment was novel in the sense that 'never before in any part of India was propaganda for village improvement used so intensively and over so wide an area, never before combined with such full use of official authority'. It was hoped that it would serve as a valuable object-lesson for similar attempts elsewhere. Unfortunately, however, the experiment did not prosper in the manner expected by its originator. One important reason for its failure was that, while the whole programme of improvement was practically forced on the reluctant but docile villager, not all its details had been carefully thought out. Again, the village guides who were expected to act as village leaders were 'hurriedly selected', 'insufficiently trained' and 'inadequately supervised', and on account of their extreme youth and ignorance they failed to command influence with the villagers. It must further be admitted that sufficient account was not taken of the diversity of local conditions. The fact was that Mr Brayne was anxious to achieve something great and to achieve it quickly. Within the short period of his Deputy Commissionership he was determined to cure for ever the squalor of the villages and 'establish a *fait accompli* to the satisfaction of the district and of the world at large'. A superficial and inadequate study of the relevant circumstances of every village to which the reforms were applied was the necessary consequence. Another cause of the partial collapse of the experiment was that there was too much intensive but crude propaganda and too little real teaching.

The Gurgaon experiment may be taken to enforce the following lessons : (i) Before any changes are advocated we must make quite sure that they are really useful and practicable. Grounds of opposition to them, if any, should be fairly and impartially considered. (ii) The problem of village improvement cannot be successfully tackled through individual effort. A permanent organization is essential 'to ensure continuity of policy and steady pressure over a long period', to secure a fair hearing for all points of view, and to prevent unduly hasty action. The example of the rural area of Rae Bareilly in the United Provinces, where village and district bodies and agencies have been created to foster village uplift, is instructive in this connexion. (See also §7.) Liability to error is incidental to all human planning. But the mistakes will be fewer and less serious in the case of organizations than in the case of individual enthusiasts. (iii) Re-

<sup>1</sup> Darling, *Rusticus Loquitur*, pp. 121-8, 155-9. See also D. Spencer Hatch, *Up from Poverty*, ch. i and *passim*.

form should as far as possible come from persuasion and education rather than by the use of force, open or veiled. It should, however, be remembered that resort to compulsion may sometimes be necessary, e.g. to overcome the opposition of a recalcitrant minority. (iv) Darling's criticism of the methods adopted by Brayne is in the main just and sound. But to the unwary reader it is likely to convey the idea that all that can safely be attempted at present is to provide facilities for education and, for the rest, to leave the village alone. But this smacks too much of *laissez-faire*. The question of rural uplift in India is too urgent to be dealt with on merely passive lines. It is necessary to undertake a definite, well-planned and persistent campaign if substantial progress is to be achieved within a reasonably short time.

§7. Recent schemes of village improvement.—Widespread and keen interest in rural uplift has been in evidence during the last few years. The movement towards rural reconstruction received its first definite encouragement with the announcement in 1935-6 of a grant of Re. 1 crore by the Government of India for distribution to the provinces to be spent on schemes for the economic development and improvement of rural areas. The work of rural reconstruction (stimulated by the establishment of popular Ministries in the provinces) done in the different areas aims at encouragement of village industries, improvement of village communications, rural sanitation and recreation, medical aid, agricultural improvements, etc. Rural reconstruction centres have been organized for intensive work in specially selected areas, some of which have achieved notable results in the direction of improving the social and moral life of the people and giving a lead to the countryside in the matter of general uplift. Much useful work is being done by various non-official organizations; including some educational institutions, as well as by individual philanthropists. Mention has already been made of the co-ordination of rural development work through rural development or village uplift boards consisting of officials and non-officials. Special rural development officers have been appointed in certain areas.<sup>1</sup>

By way of illustrating the village uplift organization and the rural reconstruction work which is being carried on in the various provinces and States, mention may be made of the two schemes of village uplift in Bombay. The first scheme was initiated by Sir Frederick Sykes during the last year (1933) of his Governorship. A programme of village uplift was issued, laying down the lines on which the requisite organization comprising officials and non-officials was to be set up in the various divisions, districts, talukas and villages in the Presidency.<sup>2</sup> The several agencies and departments concerned with rural improvement were to be linked up into a single organization in order to infuse into them fresh vigour and usefulness. The principal agency for carrying out village improve-

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 86-7.

<sup>2</sup> Subsequently published as an official blue book called *Manual of Village Improvement*.

ment under this new Bombay scheme was to be the District Rural Uplift Committee with the Collector of the district as the Chairman and the President of the district local board as the Vice-Chairman. The senior local officers of the various departments concerned and prominent non-officials were also placed on the Committee. The function of the Committee was to control and co-ordinate the work of village improvement in all its branches, viz. education, agriculture, housing, health, litigation, indebtedness and cottage industries. This scheme, while it made encouraging progress especially in the Central Division, was handicapped by lack of adequate funds and the absence of a full-time rural development officer for the district.

A more comprehensive scheme of rural development and reconstruction was unfolded by Mr A. B. Latthe, Finance Minister, in a Budget speech (February 1939). In view of the intimate contact of the Co-operative Department with the rural population and its problems, the Government of Bombay decided to combine the newly created Rural Development Department with the Co-operative Department and placed it in charge of the Registrar, Co-operative Societies, who was also called Director of Rural Development. To ensure co-ordination between various departments concerned with work in the rural areas the field staff of these departments was transferred to the combined Co-operative and Rural Development Department. But subsequent experience led the Government to separate the two departments. The necessary co-ordination is now effected through the Collector, who is held responsible for controlling the rural development staff placed under him. The district staff doing the propaganda work in the Rural Development Department has been distributed among the Revenue, Agricultural and Co-operative Departments, and the expert officers of the Agricultural Department were retransferred to their original department. But the marketing staff, consisting of the Chief Marketing Officer, four Assistant Marketing Officers and ten Marketing Inspectors appointed for facilitating the organization of new regulated markets in the districts under the Bombay Agricultural Produce Markets Act (1939), continued under the control of the Registrar of Co-operative Societies. While the latter continues to be designated 'Registrar of Co-operative Societies and Director of Rural Development' under the re-organized scheme of 1941, he has ceased to be responsible for the rural development work in the districts which, as already stated, has become the responsibility of higher Revenue Officers. Steps taken to bring about co-ordination between various departments in rural development work may be pronounced as effective since even the Forest, Police and Excise departments are now interested in this work.

The work of the Rural Development Department is being carried on through the District Rural Development Boards constituted originally in 1939. Under the revised constitution of these Boards the Collector of the district is the Chairman of the Board and officers of different departments in the district are *ex officio* members. There are, in addition, a

number of non-official members, either nominated by the Government or elected under the rules of the District Rural Development Boards. The management of the affairs of the Boards is entrusted to an Executive Committee, with the Collector as chairman. In several districts there exist Taluka and Village Improvement Committees, which are constituted to carry out the rural development work in their respective areas.<sup>1</sup>

The Rural Development Department has the benefit of advice by the Provincial Board of Rural Development, which as reconstituted in 1941 consists of members, partly *ex officio* (being heads of Government Departments concerned with rural economy), partly elected by bodies such as District Rural Development Boards and co-operative organizations, and partly nominated by Government. The Adviser in charge of Rural Development is the Chairman of the Board, whose main function is to advise the Government on general principles and policy regarding rural development and cognate matters.

Rural assistants are being appointed for propaganda work in the villages, after suitable training to enable them to function as village guides and work as secretaries of the village multi-purpose societies and village panchayats. Five centres for imparting the necessary training have been established in the province.

The Rural Development Department reported varied and useful activities in the year 1940-1 relating to the following matters: prevention of erosion of soil, extension of dry-farming methods, manures, introduction of improved practices and implements, distribution of improved seeds, control of insect pests, diseases of crops, horticulture, improvement of live-stock and poultry, markets and marketing, shows, irrigation facilities and water supply, better communications, medical aid, sanitation and education, including physical training and village libraries, demonstrations and classes. Three uplift vans were maintained in the three Revenue Divisions, to tour the villages; at each halt a small show was arranged, and talks on sanitation and public health were given.<sup>2</sup>

Similar interest in village uplift is being evinced in other provinces, for example, in the Punjab, the United Provinces, the Central Provinces and Berar, Madras, and Bengal.<sup>3</sup> The Punjab has the benefit of a Rural Development Commissioner to look after the work of village uplift. Village panchayats are being established in several provinces, and states such as Mysore and Baroda have done something to promote rural reconstruction work. The rural uplift movement received a stimulus from the deliberations of the Provincial Economic Conference (1934). But the most striking gesture was made by the Government of India, which, as already stated, set apart a crore of rupees (from the budget surplus in 1935) for distribution to the various provinces for the economic develop-

<sup>1</sup> *Annual Administration Report of the Rural Development Department, Bombay, 1940-41*, pp. 1-5.

<sup>2</sup> *ibid.*, p. 37.

<sup>3</sup> See Strickland, *Rural Welfare in India* (1936), and *Review of the Co-operative Movement in India* (1939-40), pp. 85-8.



ment and improvement of rural areas. The Central Government's grant, which was repeated in the following year, gave a fresh stimulus to provincial rural uplift programmes, especially those relating to agricultural improvement, rural sanitation, and hygiene. These central grants can, however, supply only a small fraction of the large funds required to finance rural reconstruction work, and more funds must be made available by the various provinces concerned. As pointed out above, the Congress Government of Bombay gave a splendid lead to other provinces, and more substantial results may be expected in the near future.

§8. Royal Commission on Agriculture.—The Royal Commission appointed in April 1926 was the first commission appointed specifically to examine and report on the condition of agricultural and rural economy in India. Its recommendations (embodied in a comprehensive Report which was issued in July 1928) on a variety of questions affecting the welfare of the rural community in India have already been dealt with in their proper places. The labours of the Commission led to a general revival of interest in agriculture and a fuller realization of its supreme importance to India. The Report also did useful service in recording in one place the measures already initiated in the different provinces for tackling problems of rural uplift. Hitherto the provinces were generally content to plough their lonely furrows without much mutual help, knowledge or consultation. The Report induced greater co-operation among them and a greater desire to learn from each other.

The process of implementing the recommendations of the Commission is inevitably slow and difficult, and all the resources of the Government and the community will have to be patiently mobilized for many years to come before rural India can hope to turn her back on the deep shadows and emerge smiling and prosperous into the radiant light of day.

§9. Government action on the Report: the Simla Conference.—At the Agricultural Conference consisting of provincial representatives (Ministers of Agriculture, Directors of Agriculture, Registrars of Co-operative Societies, etc.) which met at Simla in October 1928, the main recommendations made by the Commission were discussed, the action already taken by the various provinces in respect of some of the recommendations was ascertained, and emphasis was laid upon the financial implications of the Commission's proposals which made immediate or simultaneous adoption of them impossible. The Commission's Report was accepted as the basis for rural reconstruction and agricultural advance and for the progressive application of the recommendations as the circumstances of each province might permit.<sup>1</sup> The recommendation regarding the Imperial Research

<sup>1</sup> We have already dealt with the recommendations made by the Agricultural Commission regarding agricultural marketing and the action taken on them by the Central and Provincial Governments (see ch. viii, §§24-5). Recommendations made by the Commission on other aspects of the rural economy of India have been dealt with in appropriate places in the several chapters on Agriculture in this volume.

Council to be set up and financed by the Central Government was approved of in general terms.<sup>1</sup>

§10. The Imperial (Indian) Council of Agricultural Research.—As the Agricultural Commission truly remarked, the basis of all agricultural progress is experiment. 'However efficient the organization which is built up for demonstration and propaganda, unless that organization is based on the solid foundations provided by research, it is merely a house built on sand.' An all-India council of agricultural research (the Imperial Council of Agricultural Research) was created in 1929 and registered as a society under the Registration of Societies Act (1860), a step which gives it a considerable measure of financial independence. Its primary function is to promote, guide and co-ordinate agricultural research throughout India. It is a body to which the central and provincial Ministries of Agriculture look for guidance (without administrative control) in all matters connected with research, and to which such research programmes as they might choose are submitted for approval. It acts as a clearing-house of information in regard to agricultural and veterinary matters, and serves to link research work in India with that in other parts of the Commonwealth and in foreign countries. It has to make arrangements for the training of research workers.<sup>2</sup> This central body is split up into two parts: the first, a Governing Body presided over by the Minister for Agriculture and consisting of the provincial Ministers of Agriculture, three representatives of the central legislature, two representatives of commercial interests, two members elected by the Advisory Board (see below) and a whole-time Vice-Chairman who is the principal administrative officer of the Council; and the second, an Advisory Board, having as its work the examination of proposals in connexion with scientific objects. The Board has as its chairman the principal administrative officer of the Council, and as its members, two whole-time officers, one agricultural and the other veterinary, and a number of nominated and elected scientific members, such as heads of the provincial Agricultural and Veterinary Departments, together with representatives of the Indian universities, the Indian Central Cotton Committee, the Co-operative Societies, etc. The Governor-General-in-Council has the right to nominate additional members both to the Governing Body and the Advisory Board as need arises. The Council (that is, the Governing Body and the Advisory Board sitting together) met in June 1929 to settle certain preliminary matters and formally registered itself as a society under the Registration of Societies Act. The Advisory Board meets twice a year. The actual business of the Board is continuous throughout the year; but its duties are largely carried on by special committees. At present the following standing committees of the council are at work: the Sugar Committee, Rice Committee, Wheat Committee, Fertilizers Committee, Locust Committee,

<sup>1</sup> *Agricultural Commission Report*, pp. 3-4.

<sup>2</sup> Memorandum of Association of the Imperial Council (Society) of Agricultural Research.

Soil Science Committee, Dry Farming Co-ordination Committee, Oil Crushing Industry Committee, the Joint Committee of the Indian Council of Agricultural Research and the Indian Central Cotton Committee, the Animal Nutrition Committee, the Dairying Committee, the Cattle Breeding Committee and the Central Fodder and Grazing Committee.<sup>1</sup> The Advisory Board reviews all the schemes of research submitted by provincial Governments, universities and private institutions and decides which ought to be taken up, how to deal with each problem, and in what part of India the special work upon it could best be done. Since March 1942 the Board has decided upon certain changes in its methods of work. In addition to its normal function as a clearing-house for ideas emanating from the provinces and States, it adopted the role of a brain trust and now initiates its own schemes and co-ordinates all research work. What is even more important, it decided for the first time to go beyond the stage of demonstration farms and to select a number of villages in certain provinces in which to bring about the application by farmers themselves of the various results of researches under expert guidance. The decisions of the Advisory Board are subject to the sanction of the Governing Body and the views of the Society as a whole. It is the Governing Body which controls the Council's funds. The central headquarters in Simla have been linked up with the new Indian Agricultural Bureau, intended to keep research workers in all parts of the British Empire in touch with the latest research work in their own subject. The Indian Society pays a small subscription towards the upkeep of the bureaux and has a representative on their controlling body. The Governing Body has also started a research and reference library at Delhi.

Among the important whole-time officers of the Council are the Vice-Chairman (the Principal Administrative Officer), the Secretary, the Agricultural Commissioner with the Government of India, the Animal Husbandry Commissioner with the Government of India, the Agricultural Marketing Adviser, the Director, Indian Institute of Sugar Technology, Cawnpore, and the Statistician.

Among the problems to which attention is being given by the Indian Council of Agricultural Research are those connected with rice, sugar technology, cane-breeding, fruit and dry-farming research, agricultural marketing, manurial research, locust research, potato-breeding, animal husbandry, etc. Grants are made to universities to enable workers on university staffs to expand research of agricultural importance or to develop the agricultural aspect of other research.

The Government of India in the first six years following the inception of the Council gave more than one crore of rupees for research work on agriculture. Apart from the administrative budget grant of the Research Council, the Government gave Rs. 50 lakhs for general research work, Rs. 20 lakhs for research on sugar, Rs. 25 lakhs for marketing schemes at

<sup>1</sup> See *Agriculture and Animal Husbandry in India* (1937-8), p. 8.

the centre and in the provinces, Rs. 6 lakhs for a new dairy research institute, making a total of about Rs. 101 lakhs. To this must be added Rs. 14 lakhs annually for five years for the Institute of Sugar Technology at Cawnpore (Kanpur).

In order to place the Indian Council of Agricultural Research in a more secure financial position and to provide for the steady development of research, a larger and more stable income, which would be comparatively unaffected by the financial vicissitudes of the Government of India, was considered necessary. This has recently been arranged by the levy of a  $\frac{1}{2}$  per cent export cess on the value of certain agricultural commodities (such as cereals other than rice and wheat, fruit, fish, seeds, raw hides and skins, etc.) which were not already subject to an export duty or cess. The new export cess was provided for by the Agricultural Produce Cess Act, 1940.<sup>1</sup> It may be added that the cost of the Council's office, sugar-cane research and the work relating to the agricultural marketing organization will continue to be met from the central revenues as before.

As recommended by the Agricultural Commission, provincial research committees have been formed by all the provinces. These work in co-operation with the Indian Council of Agricultural Research and report on any applications from within the province for a grant by the Research Council. Such committees are important in promoting and co-ordinating research directed to rural improvement within the province. The Council has largely fulfilled the object for which it was brought into being. Provincial reports show that the Council's grants have done much to enable agricultural research to be maintained and somewhat extended during a period of financial stringency by supplementing provincial effort, enabling gaps to be filled and encouraging co-ordination of effort, although financial considerations have prevented the Council from doing as much as the Royal Commission on Agriculture expected it to do.

§11. *The Russell-Wright Inquiry.*—In 1936-7, in pursuance of the recommendation of the Agricultural Commission in favour of a periodical review of the work of the Imperial Council of Agricultural Research, the Council invited two specialists from England to report on the work done by it and to make suggestions for future work. The experts selected for the purpose were Sir John Russell, Director, Rothamsted Experimental Station, and Dr N. C. Wright, Director, Hannah Dairy Research Institute, Scotland. Their reports contain useful recommendations for bridging the gulf between the research worker and the cultivator. Other recommendations relate to the methods for tackling insect pests; dry-farming research schemes; the need for work on cash crops to be done in association with expert buyers or users of these crops and for work on food crops in association with nutrition experts; the establishment of a Soil Conservation Committee and of a Crop Protection Committee to deal with the consideration of cropping schemes on the lines adopted by the Crop

<sup>1</sup>*Review of the Trade of India (1939-40)*, p. 105.

Planning Conference (1934), to arrange for the working of control measures in relation to insects, pests, noxious weeds, etc.; development of research, education and advisory services relating to dairying and cattle improvement. Increased financial assistance to the Imperial Council of Agricultural Research was strongly recommended with a view to enabling it to bring to fruition investigations which at present stop at the experimental stage. As already pointed out, the Agricultural Produce Cess Act (1940) placed increased financial resources at the disposal of the Council.<sup>1</sup>

§12. Need for more food-production and planned development.—During the 1939–45 war the interruption of imports of rice from Burma, the growing defence requirements of India and her military commitments, the general dislocation of the domestic market caused by unprecedented transport difficulties, together with decreasing production of rice and wheat, led to a shortage of foodstuffs and a sharp rise in their prices. Quite apart from the acute difficulty as regards food supply caused by the war, the fact must be faced that India's population has been increasing rapidly without simultaneous and proportionate increase in her production of food-grains. There is therefore imperative need for a well thought out agricultural policy for the entire country and for the planning of agricultural production on a co-operative nation-wide scale. The Government of India have established a fund for assisting the cultivator of short-staple cotton to change over to alternative and more profitable crops—possibly food crops, having regard to the shortage of food.

The 'Grow More Food' campaign launched by the Government is said to have resulted in an additional outturn of 750,000 tons of foodstuffs. The cost of the campaign in 1945–6 was Rs. 2 crores in loans and Rs. 1.7 crores in grants. As part of the campaign 7,000 tube well have been sunk and more than 3,000 tanks and 4,000 other minor irrigation works are under construction. All-India plans and policies in respect of education, agriculture, food, roads, railways and aviation have been announced and special bodies like the Central Technical Power Board, and the Central Waterways, Irrigation and Navigation Commission have been set up to deal with important aspects of development.

<sup>1</sup> For further particulars, see *Agriculture and Animal Husbandry in India* (1937–8), p. 10.

## CHAPTER XII

### LAND TENURES AND REVENUE

§1. Historical survey of land revenue in India.<sup>1</sup>—From very ancient times the state in India claimed a share of the produce of the soil from the cultivators. The Laws of Manu mention one-sixth of the gross produce, that is, of the grain heap on the threshing floor, as the legitimate share of the king, though the proportion might rise to one-fourth in times of war and other emergencies. The plan of fixing a certain share of the gross produce offered many advantages in an early stage of society. Whatever the land produced was heaped on the threshing floor and, in the presence of the king's officer, the share of the state was abstracted from the heap. The demand of the state varied automatically with the outturn and no elaborate system of suspensions and remissions of the revenue was necessary. But the disadvantages of the plan are equally obvious. With the growth of population and extension of cultivation, the task of collecting land revenue in kind becomes increasingly difficult. Unless a large staff of officers is employed to supervise the division, the cultivators will conceal or make away with the grain, or local collectors will batten on it at the expense of the cultivator and the state. The grain may lie rotting on the threshing floor if the officer of the king delays coming to supervise the division. These disadvantages sooner or later compel the adoption of alternative methods of collection. For instance, an estimate of the standing crops may be made and the share of the state fixed accordingly, irrespective of the actual outturn realized at the harvest, which may or may not agree with the estimate. This and similar devices gave place eventually to payment in money—a development hastened by the rapid expansion of some of the Muslim kingdoms which rendered collection in kind under the old system unworkable.<sup>2</sup>

The Institutes of Timur represented the first systematic attempt in the direction of commuting the state's share of the produce into money. The next attempt was made by Sher Shah (1540–5), but his labours remained uncompleted owing to the shortness of his reign. The third and the most famous settlement was made under Akbar by his able finance minister, Todar Mal. A more scientific and detailed system of investigation into the taxable capacity of different soils was undertaken as a necessary preliminary to the fixation of the revenue demand. Land was carefully measured and divided into four classes representing different grades of

<sup>1</sup> For further particulars, see *Report of the Land Revenue Commission, Bengal* (1940), vol. I, pars. 13–40, and vol. II, 'Note on the Indian Land System' by Dr Radha Kumud Mukerji.

<sup>2</sup> See *Taxation Enquiry Committee Report*, par. 53.

fertility. The Government share was fixed at one-third of the gross produce. Option to pay in cash based on the average prices of food grains during 19 years preceding the settlement was given, and the term of the settlement was fixed at nine years.

Thus the Moguls did not introduce any fundamental changes in the ancient revenue system of the Hindus, but merely reduced the customary and unwritten usages of the Hindu administration to a coherent system. They are, however, to be credited with the introduction of regular records and revenue accounts for the purpose of gaining definite knowledge about the financial resources of the state. In the Deccan, similar developments took place, notably under Malik Amber of Ahmednagar, who established certain revenue rates called the *ain* ('the thing itself') or essential rates, being one-third of the cash value of the gross produce. The Marathas accepted these rates as the basis of their system, raising them to what they called the *kamal*, that is, maximum or perfect rates payable only by the best lands. In the majority of cases, the assessment was not permanent, but in the Deccan, 'the *miras*<sup>1</sup> tenure had fixed assessment as one of its incidents. The *mirasdar* held his land on permanent heritable tenure subject to the payment of a fixed assessment, which he was liable to pay whether the land was cultivated or not.'<sup>2</sup> In many cases the actual assessment was further enhanced by the levy of a number of cesses. This development was found to have taken place all over India, wherever the authority of the central Government had declined. The proportion of the cesses to the standard assessment ranged between 33 and 50 per cent in some cases, as in Bengal, according to the calculation of Sir John Shore.<sup>3</sup>

The next most important feature of the history of land revenue and tenure is the appearance of revenue farming, a factor of great significance in the development of the local system of land tenure in more than one province. The institution was designed to ensure a steady flow of income into the treasury of the central Government, which in the declining days of the Mogul Empire became more and more incapable of controlling the revenue officials in the outlying parts of the empire. This system became fairly general in Bengal from the reign of Emperor Farukhsiyar (1713-19). Under it the revenue farmer paid the Government nine-tenths of the whole collection and kept the rest as his remuneration. But later on a further stage of degeneration was reached, when the right of collecting land revenue for a pargana or district was sold by public auction to the highest bidders, who were held responsible for payment of the amount thus fixed in one lump sum into the Government treasury, retaining for

<sup>1</sup> Under the Marathas, there was also a well-defined tenure called *upri*. The *upri* was a tenant-at-will of the Government liable to enhancement of assessment and at liberty to take as much land every year as he wished to cultivate. He paid assessment according to the crop he obtained.

<sup>2</sup> Keatinge, *Rural Economy in the Bombay Deccan*, p. 3.

<sup>3</sup> See *Taxation Enquiry Committee Report*, loc. cit.

themselves any surplus over it. In practice revenue farmers squeezed out of the cultivators as much as they could, paying to Government as little as they could. In some cases, the Hindu chieftains or rajahs subdued by Mogul arms were made revenue farmers under Imperial warrant. Although at first the office of the revenue farmer was not hereditary and was subject to the supervision of the state officials, it tended to become hereditary as the control of the central authority relaxed. The revenue farmer gradually consolidated his position by taking full advantage of the political disorganization and of the special opportunities for self-aggrandizement which it held out to him. He pretended to be proprietor of his charge by first of all cultivating the large waste area in addition to his own (*sir*) land, and later on by buying out small neighbouring cultivators by fair means or foul. It thus happened that by the time of Lord Cornwallis the revenue farmers had evolved into a powerful body hardly distinguishable from full proprietors. As Roberts puts it in his *Historical Geography of India*, 'the zamindari<sup>1</sup> which was originally a hereditary contract agency for the collection of revenue became something resembling a landlord estate'. The general dislocation in administration during the later years of Mogul rule and the chronic financial embarrassment of the Government made the position of the revenue farmers stronger and stronger, as they were the only source of ready money for the Government to draw upon. The official organization for controlling land revenue administration having disappeared, the revenue farmers' operations were entirely unchecked, and the Government were so demoralized that they had neither the power nor the desire to mitigate the oppression and extortion of the villagers at their hands.

Revenue farming, at first confined to the Mogul Empire and more particularly to the province of Bengal, soon extended to other parts of the country for similar reasons, and even the Marathas, whose revenue system under Nana Farnavis during the latter half of the eighteenth century was universally recognized to be extraordinarily efficient and equitable, adopted it under the incompetent rule of the last Peshwa soon after the death of Nana Farnavis. It must be noted, however, that though the system thus came to be widespread, its effects were not uniform. In northern India, where it was introduced earlier and where the central authority weakened faster, they were more complete and lasting, as shown by the growth of the zamindari rights in Bengal. In other cases no permanent traces were left, as for example in the Deccan, except in the outlying districts of the Konkan where the khots who were at one time revenue farmers acquired landlord rights. Midway between the two extremes, as in the United Provinces, the revenue farmers succeeded in acquiring only certain overlord rights. The same was more or less the case in the Punjab. The net result of revenue farming and of the general disorder characterizing the

<sup>1</sup> All revenue farmers irrespective of their origin were called zamindars and sometimes talukdars—terms which did not necessarily imply any definite proprietary right in the land.



revenue administration was seen in the increasing complexity of land tenures and rights, and the steady departure from former revenue practices, such as a regular survey and assessment, which had been prevalent since the days of Akbar. All this made the task of the new British administrators very difficult in the absence of any rational plan for administering the land revenue. It was quite natural therefore that mistakes were made in the beginning, and many years had to pass before a tolerable system was evolved for the various provinces.

§2. Three kinds of land tenure.<sup>1</sup>—Apart from the intrinsic interest of the subject of land tenures, it is necessary to understand it properly, because without an adequate knowledge of it, the systems of revenue settlements prevalent in different provinces can scarcely become intelligible. The type of tenure, that is, the way in which land is held, determines, for instance, the person or persons responsible for the payment of the land revenue, that is, the form of settlement, the various gradations of interest and rights in land, their recognition and interrelation and the nature of the unit of assessment adopted.

'The system of land tenure in India exhibits almost every conceivable variation, from immense estates, containing thousands of tenants, to minute holdings of well under an acre in size. It is nevertheless possible to classify the holdings into certain fairly well-defined groups.'<sup>2</sup> The following are the three main types of land tenure in India. (i) First, we have the various forms of landlord tenure, where one person or at the most a few joint owners are made responsible in one sum for land revenue on the whole estate, as in Bengal. (ii) Secondly, there are the smaller estates, essentially of the same character as the first, but with certain distinguishing features. They are village estates which are held by co-sharing bodies or village communities, the members of which are treated as jointly and severally liable for the land revenue. We have here to deal with a collective or 'ideal' landlord. (iii) Lastly, land may be held in single independent holdings owned severally, though aggregated locally in villages, the individual holders being severally responsible for the payment of the revenue. These three kinds of tenure are called (i) zamindari, (ii) joint village (village community) or mahalwari, and (iii) ryotwari, respectively.<sup>3</sup>

§3. Two main forms of village constitution.<sup>4</sup>—It is now necessary to em-

<sup>1</sup> For a good deal of the purely descriptive part of this chapter, we are indebted to B. H. Baden-Powell, *Land-Systems of British India*, and also to his *Land-Revenue and Tenure in British India*.

<sup>2</sup> See *India in 1930-I*, p. 169.

<sup>3</sup> The Famine Inquiry Commission classified the major systems of land tenure in India as follows: (i) The permanently settled estate system; (ii) the temporarily settled estate system; and (iii) the ryotwari system. Under (iii), revenue is fixed on individual pieces of land and the actual occupants, recognized as possessing a permanent and heritable right of occupancy, are liable for its payment. Under (i) and (ii) the 'estate' is the unit and the holder of the estate, not the actual occupant, is responsible for the payment of the land revenue (*F. I. C. Final Report*, p. 251).

<sup>4</sup> For the interesting but controversial question of the origin and of the forms of

phasize the distinction between villages in India as regards their internal constitution, a factor which has an important bearing on the nature of the land tenure and, through the land tenure, on the form of the revenue settlement. There are two distinct types of villages in India, namely, the ryotwari or severalty and the landlord or joint village, the latter being further subdivided into a number of interesting minor varieties.<sup>1</sup>

(i) *The ryotwari village*.—The internal constitution of the ryotwari village is comparatively simple. Land is owned and cultivated separately by the various owners, each of whom may have inherited or bought his holding, or cleared it from the original jungle. The aggregate of these separate cultivators, owners and their holdings makes up the ryotwari village. The waste land of the village is the property of the Government, though it may be used by the villagers for grazing, wood-cutting, etc. Land revenue is assessed on each separate holding and the responsibility for its payment is individual. Apart from subjection to common village officials and the common enjoyment of the services of the village artisans and menials, there are no further points of contact among the villagers. It follows from all this that the importance of the headman or patel and, in general, of the village officials is greater in the ryotwari village than in the landlord village. This form of village is universal in Madras, Bombay, Berar and Central India, and was also prevalent in the Central Provinces and Bengal before the super-imposition of malguzari and zamindari rights respectively.

(ii) *The landlord or joint village*.—The landlord village, so called, may be owned by a single individual landlord or a body of co-sharers who may represent a group of ancestrally connected families claiming to be regarded collectively as the landlord of the village as already existing, or as established by their own foundation, but in either case the village is treated as a single unit. The individual or the collective landlord has pretensions to be of higher caste than and superior title to the other cultivating tenants, though sometimes the co-sharers may themselves cultivate the estate. The waste land of the village is the property of the village community as a whole, so that it may be rented to tenants and the rents divided among the members of the community, or it may be partitioned or brought under cultivation without the leave of the Government. The whole estate is assessed to one sum of land revenue for which the whole body of co-sharers are jointly and severally responsible, although special exemption from joint responsibility may be secured and the individual share of land revenue may be separated out by a particular co-sharer with the permission of the Government. The common affairs of the village were originally managed by panchayats or representative bodies consisting of the leading co-sharing families. Strictly speaking, there is no single village headman, although an individual may be selected as the lambardar

the village in India, see Baden-Powell, *Land-Revenue and Tenure in British India*, pp. 88-90.

<sup>1</sup> See Baden-Powell, *Land-Systems of British India*, vol. I, ch. iv.

to represent the village community in its dealings with the Government, especially in connexion with land revenue settlement. This type of village is particularly strongly developed in the Punjab and is mostly connected with Mohammedan ideas as contradistinguished from the ryotwari village, which is associated with Hindu government and Hindu ideas. It is also found among the Jat, Gujar and other tribes in the central Punjab, as well as among the conquering Aryan tribes and descendants of chiefs and nobles in other parts.

§4. Constitution and types of joint or landlord villages.—Turning to further details of the internal constitution of such villages, we may refer to three distinct varieties depending on the principle according to which the co-sharers allot the land or the profits and produce of the land. (i) First of all we have ancestral villages, where there is the ancestral or family share system under which each member of the co-sharing body takes the fraction of the whole which his place on the genealogical tree points out. There are the following types of ancestral villages: (a) villages held by a joint body undivided as in the case of a joint undivided family, (b) those divided under the ancestral share system (*pattidari*), and (c) those partially divided on the ancestral system (imperfect *pattidari*). (ii) Secondly, there are non-ancestral villages where there are special customary systems of sharing under the true *bhaiachara*<sup>1</sup> principles of (a) sharing in equal lots made up artificially of various strips of land, (b) sharing by ploughs, in which land is assigned according to the number of ploughs owned, or (c) with reference to shares in water, or (d) shares in wells. In all these cases, however, allotments are still regarded as shares of a jointly owned whole. (iii) Thirdly, there is the system of *de facto* holdings where there is no specific rule of sharing, and the existing holdings are recognized as such.

In the ancestral villages, the revenue burden is proportioned to the fractional share in the estate, more or less nearly and in principle, while in the case of the non-ancestral forms, the revenue burden is proportioned to the actual holdings according to the *bhaiachara* or *de facto* holding principle.

These three different rules of sharing must be regarded as being the outcome of one or other of the three possible ways in which all joint or landlord villages have been formed, namely, (i) they were either bodies who have jointly succeeded to a village at first held by one common ancestor, who in his turn may have been either a founder, or a grantee, or a revenue farmer, or again a ruling chief reduced to the position of a landlord as in the United Provinces, or (ii) they are bodies made up of a certain number of families belonging to an immigrating or conquering clan which allotted the area according to its customary methods, or (iii) they are merely co-operative colonizing groups formed under circum-

<sup>1</sup> The term *bhaiachara* is officially used in a more general sense and covers all variations of the non-ancestral landlord villages.

stances which led them to establish cultivation on the joint-stock principle.

It may be noted here that over the village landlord bodies a superior overlordship may occasionally arise as in the case of the Oudh and Agra talukdars, who are overlords over a number of village communities. The latter, however, retain the same essential principles as in the case of independent village communities. The origin of these overlord rights is similar to that of the independent landlord villages themselves.

§5. Landlord estates including more than one village estate.—Some landlord estates extend over a larger area than a village, perhaps a whole district or pargana, although the component villages even here do not lose all their importance. The origin of these bigger landlord estates does not present any special features and is accounted for as in the case of village estates. The present land-holder may be a descendant of a former territorial chief or ruler, or of a revenue farmer or other land official, or of a grantee of the state, jagirdar or inamdar. Such landlord estates owned by zamindars exist on a large scale in Bengal, and in Oudh and Agra to some extent, where we have the talukdar class. They are quite exceptional in the Punjab. In the Central Provinces, the estates of the special class of landlords called *malguzars* occupy a very large proportion of the total area of the province, but they are not landlords in the Bengal sense. In Bombay, there is a variety of landlord estates. Apart from the class of jagirdars and inamdars, there are the Gujarat talukdars and *khotas* on the west coast of the Deccan coming under this category. In Madras, especially in the northern part, there are several great zamindars of the Bengal type.

This survey of the (proprietary) land tenures in India brings out the enormous complexity and great variety of forms that have been developed as the result of several historical factors, such as wars and invasions, tribal and local conquests, the rise and fall of ruling families and so on. To the right by first clearing, which must have been originally of primary importance, has been super-added the right by conquest, grant or natural superiority, etc.

§6. Sub-proprietary and tenant rights.—In this process of super-imposition of rights one upon another as the result of conquest, grant, or revenue farming, as new overlord rights may be created so also original proprietary rights may degenerate into sub-proprietary or tenant rights. In some cases, the ex-proprietors were able to maintain a privileged position even under an overlord, and the recognition of the person at the head as the proprietor made the recognition of others below also necessary. The confusion that characterized landed rights, specially the large number of grades of landed rights, made the recognition of these rights very difficult.

In the ryotwari tracts, the question was very simple in the absence of any considerable overgrowth of rights. In most cases the cultivator was also the landlord. Where tenants were employed there was no doubt

that they were ordinary contract tenants created by the owner and therefore not requiring any legal recognition. In a few cases at the most, there might be a loose overlord right which could be sufficiently provided for by the payment of a fixed rent charge by the actual proprietor. But in the zamindari tracts and the joint village estates, the position was much more complex, a number of intermediate grades having come into existence. Baden-Powell gives the table below to illustrate the various interests that may intervene between the Government, with their revenue rights and their occasional direct ownership of land as the fountain-head of rights at the top, and the actual cultivator, wherever he has any permanent right to occupation, at the bottom.<sup>1</sup>

One interest	Two interests	Three interests	Four interests	
1. The Government is the sole proprietor.	1. The Government. 2. The ryot or 'occupant' with a defined title (not a tenant) as in Madras, Bombay, Berar etc.	1. The Government. 2. A landlord (zamindar, talukdar or a joint village body regarded as a whole). 3. The actual cultivating holders, individual co-sharers, etc.	1. The Government. 2. Landlord. 3. Sub-proprietors, or tenure-holders 4. The ryot or actual cultivator.	1. The Government. 2. An overlord or superior landlord. 3. An actual proprietor or landlord (usually a village body). 4. The actual cultivating holders, individual co-sharers, etc.

(i) *Sub-proprietary rights*.—The main characteristic of the sub-proprietary tenure is that the holder is the owner in full as regards his particular holding but has no part in the whole estate or its profits and no voice in its management. The illustrations of this category are found in Bengal, where certain persons known as tenure-holders have been granted a privileged status of permanent, heritable and transferable tenure held at fixed payment, because they were able to maintain such a position in spite of the general predominance of the zamindar class. The difficulty of defining their status led subsequently to the adoption of the rule, made under the Act of 1885, that all those persons below the zamindar owning one hundred bighas of land were entitled to the status of a tenure-holder.

Another modern instance of such rights is provided by the class of patidars who were given a permanent managing lease for a part of the estate

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 129. Cf. 'In one estate in Bakarganj there are as many as thirty intermediate (between the proprietor and the cultivator) tenures one under another'—*Report of the Bengal Banking Enquiry Committee*, par. 17. 'The promise given by the East India Company never to alter the assessment [in Bengal] followed as it was by the gradual growth of the zamindars' profits, encouraged subinfeudation and brought into existence a body of tenure-holders vastly outnumbering the original zamindars'—*Report of the Land Revenue Commission, Bengal*, vol. I, par. 77.

by the zamindars who found their estates too unwieldy and were desirous of sharing their revenue responsibility with others. The pattidars in their turn often created tenants called dirpattidars endowed with similar privileges and charged with parallel revenue responsibilities. Such rights were recognized by the Bengal Regulation of 1819.

Still another class of sub-proprietors is found in those cases where the present proprietary landlord body has grown over an earlier group; certain families would be able to maintain their position paying only Government assessment and no rent to the superior landlord in respect of their holdings. In the Central Provinces, the artificial creation of the malguzars, under the influence of the earlier policy followed in upper India, of fixing revenue responsibility on one landlord for each village, even when originally ryotwari in character, necessitated the recognition of sub-proprietary rights. Lastly, in Oudh, occasionally entire village bodies were able to preserve their rights of independent management subject to the payment of a fixed rent to the overlord talukdar. Their sub-proprietary rights have been recognized by a separate sub-settlement with them fixing their rent payment to the talukdar with whom the main settlement is effected by the Government.

(ii) *Tenant-rights*.<sup>1</sup>—We may now proceed to deal with tenant rights, not of the ordinary contract tenants, but of those holding some privileged position. First we shall concentrate on a description of the features common to all the provinces (prevalent before the enactment of tenancy legislation after the inauguration of provincial autonomy in 1937) without entering into minute details relating to every particular province. The same general features that account for the rise of the landlord and overlord rights explain the existence of tenant rights of different grades. Those who are now classed as tenants in the case of landlord estates, joint or individual, must at one time have enjoyed a superior status. The more complete the landlord or the overlord rights and the greater the opportunities and time at the disposal of persons acquiring these rights, the more will the lower grades sink in point of status. Thus different grades of tenant rights would arise depending on the strength of the pressure exerted from above. There were two difficulties regarding the recognition and definition of these tenant rights by the British administration; one was that not in all cases was direct proof obtainable of a former superior status enjoyed by the tenants; and the second difficulty was that, besides persons entitled to recognition on the ground of a former proprietary status, were also other tenants who were in a sense a privileged class, because they were brought in by the landlords on a contract basis, but at a time when tenants were too valuable to be ejected. The result was that a distinction between natural and artificial tenants had to be adopted. The natural tenants were those in whose favour definite facts could be asserted and proved; the artificial tenants were those who were not able

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, ch. vii, section 5, and *Taxation Enquiry Committee Report*, par. 60.

to adduce any definite proof of the circumstances and origin of their tenant rights. To meet the case of the artificial tenants, the twelve-year rule was adopted in Bengal, Agra, and, to a limited extent, in the Central Provinces. In Bengal and Agra, the Tenancy Act of 1859 provided for the recognition of a tenant as occupancy tenant, if he had cultivated the same land continuously for twelve years. The Act was, however, evaded by landlords who made it impossible for any tenant to hold the same piece of land continuously for the required period, and it was therefore amended in Bengal in 1885. Cultivation was now required, not necessarily of the same piece of land, but of some land in the same village continuously for twelve years. The Tenancy Act of 1928 declared holdings to be transferable subject to a transfer fee, and the landlord was given the right of pre-emption. It further considerably strengthened the right of under-ryots and divided them into three classes entitled to different degrees of protection.<sup>1</sup>

In Agra, the Act was not formally amended as in Bengal (1885), but a number of restrictions were imposed by an Act passed in 1901, so as to prevent the landlord from defeating the provisions of the law.<sup>2</sup> The Act of 1901 was revised in 1926 on the lines of the amendments made in the Oudh Rent Act in 1921, viz., the conferment of life tenures on non-occupancy tenants and in return a large extension of the *sir* (home farm) rights of landlords. The heirs of the statutory tenants were allowed to hold on for five years. The addition thus made to the *sir* land was excessive. The Tenancy Act (1939) in the United Provinces seeks to restrict the *sir* land in the interests of tenants (see §9 (ii) below). In Oudh, occupancy rights, at first limited under the Act of 1886 to tenants who, having once enjoyed proprietary rights had lost them, were extended subsequently to ex-proprietors whose proprietary rights were transferred by sale or execution.

In the Punjab, the right of occupancy can be acquired only by tenants whose claims are based on certain historical grounds and not by mere lapse of time. The Punjab Act of 1887 defines occupancy tenants as those who, for two generations, have paid neither rent nor services to the proprietor, but only their share of Government assessment.

In the Central Provinces also, the twelve-year rule was applied at first, but later on it was given up in favour of an arrangement which allowed purchase of occupancy rights at two-and-a-half times the annual rental. This in its turn was superseded by another rule framed in 1920 which recognized two classes of occupancy tenants, both having transferable rights subject to certain conditions.

In the zamindari estates in Madras every ryot who possessed ryoti land (that is, land which is not the home farm or the *sir* land of the proprietor) at the time of the passing of the Estates Land Act of 1908 (modelled on

<sup>1</sup> Report of the Land Revenue Commission, Bengal, vol. I. par. 71.

<sup>2</sup> For further particulars regarding rent legislation in Agra and Oudh, see the Report of the United Provinces Banking Enquiry Committee, pars. 327-8.

the Bengal Act of 1885), and every ryot admitted by the landlord to the possession of ryoti land, has a permanent right of occupancy. His position has thus been assimilated to that of the occupant in ryotwari areas.

In Bombay, the special Act of 1880 dealing with the khots protected the old residential tenants in the same manner as occupancy tenants elsewhere. There are also other cases of special tenure, such as the talukdari tenure, which are dealt with under the Special Act of 1862.

§7. Other than occupancy tenants.—We have devoted so much attention mainly to occupancy tenants for the reason that they constitute by far the most important class of privileged tenants in landlord areas. It is necessary, however, to add that there are several other classes of tenants occupying a status in some cases higher and in others lower than occupancy tenants. By way of illustration, we may refer to the superior class of tenants in Bengal known as tenure-holders and already mentioned above, and ryots at fixed rates who can neither be ejected nor made liable to enhancement of rent. Similarly, in the United Provinces, in the permanently-settled districts of Benares, there are certain tenants at fixed rates. Again, in the Central Provinces, we have the class of 'absolute occupancy tenants' recognized at the first settlement as holding an exceptionally strong position. These cannot be ejected practically for any reason whatever. They pay a privileged rent which, moreover, is fixed by the Settlement Officer for the whole term of the settlement. On the other hand, there are certain inferior tenants comparable to the tenants-at-will in ryotwari areas but enjoying a certain amount of protection not available to the latter.

§8. General features of occupancy privilege.—We may now briefly indicate the nature of the protection enjoyed by occupancy tenants. (i) There is a limit to the enhancement of the rent both as regards the amount and the period which must elapse before it can be increased. Enhancement can occur only as a result of agreement or by decree of a court on specific grounds. The grounds for enhancement recognized by the court in the event of a suit are lightness of rent as compared with neighbouring land, advance of prices, or improvement in the productivity of land due to the enterprise of the proprietor, or to fluvial action. The tenant can sue for a reduction of rent on the ground of permanent deterioration of the soil or a permanent fall in local prices. In the Central Provinces, the rent is fixed by the Settlement Officer as in the case of absolute occupancy tenants, but not for the whole term of settlement, being liable to revision every ten years. In Madras, rent cannot be increased by more than twelve and a half per cent at one time. (ii) There are certain provisions protecting the occupancy tenant from ejectment except in special circumstances. Provisions in this connexion are really complementary to those in connexion with enhancement of rent. Either set of provisions would be useless unless supplemented by the other. (iii) The occupancy right is hereditary and can be alienated, that is, parted with, or transferred outside the family on certain conditions. (iv) There are certain laws of distraint



for rent, securing the exemption of cattle, tools, seed-grain and so on. Further, in every case proper notice to quit is required, and payment of rent is by instalments. (v) Remissions and suspensions of land revenue granted by the Government to landlords in a bad year must be followed by corresponding concessions granted to tenants by landlords. (vi) Lastly, the right to make improvements on the land without enhancement of rent is also protected within certain limits, or in the event of higher rent being charged, compensation must be allowed.

In short, the aim of these rules is to confer on tenants the privilege of the three F's—fair rent, fixity of tenure and free transfer—as in the case of the Irish land legislation. The conferment of the occupancy privileges on tenants thus makes their position comparable with that of owner-cultivators under the ryotwari system.<sup>1</sup>

✓ §9. New drive for tenancy legislation in zamindari provinces.—After the introduction of Provincial Autonomy on 1 April 1937 and the assumption of office by the Congress Party in eight provinces, opinion hardened against the institution of zamindari, resulting in measures for tenancy reform in almost every province. These measures are briefly reviewed below.

(i) *Bihar*.—Soon after the Congress Government came into power the Bihar Government initiated legislation calculated to redress the grievances of the peasants and confer on them rights and concessions which directly diminish the power and prestige of the zamindars, who were, however, discreet enough to read the signs of the times and agree to a compromise. Reduction in rents to the level of 1911, abolition of the method of recovering rents in kind, exemption of enhancement for a period of fifteen years, withdrawal of the zamindar's right of claiming damages in case of arrears of rent, the reduction in the rate of interest on such arrears to  $6\frac{1}{4}$  per cent, the conferment of hereditary rights including the right to dig wells, build houses and plant trees, on tenants who have occupied lands in a village for twelve years and protection against eviction—which is not permitted except in the case of land being rendered unfit for cultivation—are the principal features of the Bihar Tenancy Act (1938). The only right after all this that the landlord possesses is to get his rent from occupancy tenants. The number of non-occupancy tenants in the province is almost negligible.

(ii) *The United Provinces*.—The labours of the Congress Ministry, spread over two years, culminated in the passing of the United Provinces Tenancy Act, in December 1939, which consolidates and amends the tenancy laws of Agra and Oudh in the light of the findings of a committee appointed earlier to inquire into the problem of land tenure in the province. The most important provision of the Act is that which confers hereditary rights on all but a small fraction of such tenants as are not at present in enjoyment of occupancy rights. The most striking

<sup>1</sup> F.I.C.F.R., pp. 252-3.

addition to tenants with hereditary rights is obtained from tenants on *sir* (home farm) land, to whom under the present law no tenancy right accrues. The Act restricts the grant of *sir* rights (relating to tenancy at will) paying land revenue not exceeding Rs. 100 to small landholders and limits the area to 50 acres in the case of large landholders. The current rent rates were to remain in force for the time being, but were to be reduced within five years to the level of rents prevailing between 1896 and 1905. Once determined the rent rates were not to be ordinarily revised for a period of 20 years. Rent is to be remitted or suspended during periods of natural calamities and resettled during periods of economic calamity such as a slump in prices. Ejectment will be allowed only in case of prolonged default. The rate of interest on arrears of rent will be reduced to  $6\frac{1}{4}$  per cent per annum.

(iii) *Bengal*.—The Bengal Tenancy Act of 1938 provides for the abolition of illegal exactions and cesses levied on tenants, of the right of pre-emption enjoyed so far by the landlord (this right being given to co-sharer tenants instead), of the transfer fee (*salami*) payable to the latter and of the right to realize rent by certificate procedure. The tenant has been given the right to recover his diluvial land within 20 years on payment of only 4 years' rent. The under-ryot has been given rights similar to those enjoyed by occupancy ryots, and the rate of interest payable on arrears of rent has been reduced to  $6\frac{1}{2}$  per cent. The new Act further provides for the suspension of all provisions relating to the enhancement of rent for a period of 10 years.<sup>1</sup> The Act was regarded by the Bengal Government as a first step in dealing with the urgent grievances of tenants. A Commission was therefore appointed to undertake generally an examination of the existing land revenue system of Bengal in its various aspects with special reference to the Permanent Settlement (see §32 below).

(iv) *Central Provinces*.—The Congress Ministry in the Central Provinces succeeded in enacting the Central Provinces Tenancy Bill (1939) drafted in the light of the recommendations made by the Revenue Committee appointed earlier by the Government to consolidate the existing land revenue and tenancy law of the province.

§10. *Tenancy in ryotwari provinces*.—Here, as a general rule, there has until recent times been comparatively little artificial growth of a landlord or middleman class between the cultivator and the state. Therefore the necessity for recognizing the subordinate rights and varieties of tenancy which need such careful treatment in north Indian settlements has not been felt so urgently. As we have already seen, there are some landlord estates even in ryotwari provinces, as in the case of Madras zamindars or the Bombay khots and talukdars, and most of these cases, as we have just noted, have been provided for by special Tenancy Acts. As regards the ordinary contractual tenants under ryotwari holders either in Madras or Bombay, or any other province where the ryotwari system is mainly

<sup>1</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 68.

in force, there was until recently no special legislation intended to protect them from arbitrary rent enhancement or summary eviction, although, of course, the general tenancy law was available for enforcing the terms of an agreement, if any, between the two parties, or failing an agreement, the dictates of any particular usages of the locality in question. The increase in the number of tenancies, the passing of land into the hands of non-cultivating classes in consequence of the disintegration of the village community and deterioration of agriculture, and the excessive competition among tenants for land, leading to growth of rent rates, have gradually created a situation in ryotwari areas which needs to be met by tenancy legislation on lines similar to those adopted in zamindari provinces.

§11. The Bombay Tenancy Act (1939).—The Bombay Tenancy Act was passed in October 1939. It received the assent of the Governor-General in April 1940 and in 1941 came into force in selected areas in the province.<sup>1</sup>

As pointed out in the statement of the objects and reasons accompanying the Tenancy Bill, the provisions of the Bombay Land Revenue Code, 1879, and the Khoti Settlement Act, 1880, which regulated the relations between landlords and tenants in the province, had been found to be unsatisfactory in several respects.<sup>2</sup> Many tenants who had held the same land for generations had not obtained rights of permanency but continued to be tenants-at-will liable to be deprived of their tenancy at the will of their landlords, and had in consequence no incentive to make improvements, for which further they might be asked to pay higher rents. Even permanent tenants were sometimes subjected to levies sanctioned by local usage or custom and to forced or ill-remunerated labour. It was the tenants of large landowners, whether in khalsa or alienated villages, who were particularly exposed to these disadvantages. The Tenancy Act therefore gives special protection to tenants of such landlords.

The Act created a new class of 'protected tenants' and provided for the protection from eviction of those who had held land in tenancy continuously for a period of not less than six years immediately preceding 1 January 1938, and had cultivated such land personally during the aforesaid period. Tenants evicted after 1 April 1937 were to be deemed protected tenants under certain conditions. The security of tenure is, however, subject to certain conditions, viz. the desire of the landlord to cultivate the land himself, or to use it for a non-agricultural purpose, failure by a tenant to pay rent, bad or injurious tenancy, sub-letting the land instead of cultivating it himself. A protected tenant is entitled to compensation on eviction where he has made any improvement on the land held by him, and his tenancy is transferable to his heirs under certain restrictions; but his rights cannot be mortgaged or otherwise alienated, nor will they

<sup>1</sup> In a Press Note issued by the Government of Bombay in April 1941 it is explained that in view of its complicated character, the numerous administrative problems of a complex nature presented by it and the substantial changes in the economic structure of the province involved in it, it is desirable to enforce the new Tenancy Act in selected areas.

<sup>2</sup> See *Bombay Government Gazette*, 26 August 1938, pp. 497-511.

be liable to seizure, attachment and sale by process of any court. The Act also provides procedure for determining the reasonable rent payable by the protected tenant in the absence of an agreement with his landlord or of local usage. The fair rent is to be determined by the mamlatdar in accordance with a specified procedure, and an appeal against his decision to a First-class Subordinate Judge is permitted.

The Act confers certain benefits on all classes of tenants. For instance, the exaction by landlords of any cess, rate, tax or service from any tenant other than the rent lawfully due is forbidden on pain of a heavy fine. For some areas the Government may fix the maximum rate of rent payable by tenants. Whenever the Government grants suspension or remission of land revenue assessments, landlords must give a corresponding suspension or remission of rent to their tenants. This provision, however, does not apply to crop-share rents.

All tenants are entitled during the continuance of their tenancy to the produce and wood of trees planted by them on their lands. They are also entitled to compensation for those trees on the termination of their tenancy. Relief against termination of tenancy is granted in certain cases.

Under clause 23 of the Act no agricultural lease can be made for less than ten years, in order that tenants may be encouraged to improve the lands and to secure a better return for their labour.

Further protection to tenants is granted by a Bill passed in October 1946 by the Bombay Legislative Council.

§12. What is a settlement?—The ground being prepared by a preliminary study of land tenures, we are now in a position to consider land revenue settlement. What is technically called a settlement of land revenue consists of the determination of (i) the share of the produce or the rental to which the state is entitled ; (ii) the person or persons liable to pay it ; and (iii) the record of all the private rights and interests in the land. As previously stated, the last item is particularly important in landlord areas, individual or joint, where there is a regular graduation of landed rights and interests that have to be recognized.

§13. Requisites of a settlement.<sup>1</sup>—Three principal stages in the process of land revenue settlement may be distinguished: (i) preparation of a cadastral<sup>2</sup> record ; (ii) assessment of revenue ; and (iii) collection of the revenue assessed.

(i) *The cadastral record.*—The cadastral record, which includes the village map, the fiscal or the revenue record, and the record of rights, is prepared by means of a detailed field-to-field survey of the land and the demarcation of the boundary lines so as to secure an exact account of the cultivable land, the extent of each kind of soil requiring its own rate of assessment, and the preparation of a correct record of rights. From this survey, a map is prepared for each village showing the separate hold-

<sup>1</sup> See *Imperial Gazetteer*, vol. IV, ch. vii.

<sup>2</sup> 'Cadastral' literally means showing the extent, and ownership of land for taxation.

ings and the area and nature of the cultivable and waste land. To correspond with the village map, a field register is usually prepared, and from these two, the fiscal or revenue record, showing a correct list of revenue payers with the amount shown against their names. These are supplemented by statistical tables and returns illustrating the past history and the present condition of the village. Lastly, a record of rights, either separate or as an adjunct to the revenue record, is prepared showing the tenure of land, and the various rights in the land, such as the rights of landlord, co-sharers, sub-proprietors, occupancy tenants, etc., as well as the rights created by mortgage, sale, lease and so on. All these records are kept up-to-date by a system of public entry and registration of all changes. The rights thus recorded are presumed to be legally valid until the contrary is proved.

(ii) *Assessment of revenue.*—In order to find the revenue demand there is a valuation of the land, the ascertainment of revenue rates and the totalling up and adjustment of them. This gives the sum payable by the estate or holding. In some cases, subsidiary proceedings to determine the distribution of this total among co-sharers and the adjustment of tenant rents are necessary.<sup>1</sup> The different bases for assessing revenue adopted in the various provinces will be considered presently.

(iii) *Collection of revenue:* (a) *Instalments.*—Land revenue is collected not in one sum but in instalments, so as to suit the convenience of the revenue payers. The average landlord, for example, cannot pay unless the harvest is reaped and the produce marketed. Another consideration governing the system of instalments is to avoid too great a demand for cash at one time, for this is likely to send prices down and raise rates of interest to inconvenient levels.

(b) *Procedure for the recovery of revenue arrears.*—In respect of recovery of arrears, there is a difference between tracts under Permanent Settlement and those under Temporary Settlement. In the former, the gift of the landlord right was accompanied by the rigorous condition that the revenue must be paid with absolute punctuality under threat of immediate sale of the estate—a course of action deemed to be preferable to the alternative of subjecting a great landlord to the indignity of personal imprisonment, or attachment and distraint of moveable property. In the Temporary Settlement areas, the procedure is less strict and the sale of land, instead of being the first step, is usually the last of a series of steps.

(c) *Suspension and remission of revenue.*—Though the assessment is fixed with reference to average seasons and conditions during the period of the settlement, exceptional disasters, widespread or local, such as floods, blight, total failure of rains or of other sources of irrigation, or collapse of prices of agricultural produce, etc., are apt to upset all calculations, even assuming that the agriculturist has the will and the power to utilize

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 148.

a good harvest as an insurance against a bad year, which is rarely the case. In these circumstances, relief graduated according to the degree of crop failure is necessary and may take the form of suspension, or remission (partial or complete). The suspended revenue may be recovered or remitted according to the nature of the succeeding harvest. Remission, partial or complete, is granted in the case of continued failure of crops over more than one year.

§14. Classification of settlements.—Settlements fall into two classes according to their duration. Where the share of the state is fixed in perpetuity, as in Bengal, it is called a Permanent Settlement; and where it is fixed temporarily for a definite period, it is called a Temporary Settlement. The period is 30 years in Bombay, Madras and the United Provinces, 20 years in the Central Provinces, and 40 years in the Punjab.

Settlements may also be classified according to the system of tenure. Corresponding to the three main kinds of tenure already indicated, and as influenced by them, there are three main kinds of settlement as follows :<sup>1</sup>

(i) Settlements for single estates under one landlord. Varieties under this heading are :

(a) Permanent Settlement with the zamindars in Bengal, north Madras and Benares.

(b) Temporary Settlement with the remaining zamindars in Bengal.<sup>2</sup>

(c) Temporary Settlement with the talukdars of Oudh.

(ii) Settlements for estates of proprietary bodies, usually village communities. These are called mahalwari settlements. Varieties (all varieties of this are on a temporary basis):

(a) The mahalwari settlement in the United Provinces of Agra and Oudh (where there are no talukdars but only village communities).

(b) The mahalwari settlement of the Punjab.

(c) The malguzari settlement of the Central Provinces.

(iii) Settlements for individual occupancies or holdings. Varieties (all varieties under this are on a temporary basis) :

(a) The ryotwari system of Madras.

(b) The ryotwari system of Bombay and Berar.

(c) Special systems (in principle ryotwari, but not officially so called) of Assam and Coorg.

<sup>1</sup> Despite the diversity of settlement systems, 'they are all alike in three respects. Firstly, the process of assessment is always preceded by the preparation of a survey map and record of rights; secondly, a soil classification is always made; and, thirdly, the assessment is no longer based on the gross produce, but on the net assets.'—Sir Edward Blunt, *The I.C.S.*, p. 131.

<sup>2</sup> A zamindari settlement is not necessarily also a Permanent Settlement and a ryotwari settlement is not necessarily a Temporary Settlement. Zamindari settlements are temporary, for example, in Oudh. Again, there is nothing to prevent a ryotwari settlement from being permanent, though, as it happens, there is apparently no actual instance of this.

Every settlement must thus belong to one or other of the three classes mentioned above and must be either temporary or permanent.<sup>1</sup>

§15. *Zamindari settlements: Permanent Settlement in Bengal.*—We have already seen how the development of revenue farming, particularly in Bengal, led to the supersession of the old ryots by a new body of landlords known as zamindars. We have also pointed out how, owing to the disruption of the Mogul Empire, the old regular system of revenue administration evolved by Akbar had fallen into hopeless decay, and the cultivators were ground down by the exactions of the zamindar on the one hand, and on the other, by the numberless extra imposts levied on the land by the provincial rulers. The position, if anything, was made much worse in the early years of the Company's rule after the grant of the Diwani in 1765. The confusion was worse confounded by Clive's dual government system, under which neither the Nabob's revenue officers nor the East India Company's servants felt any responsibility for the good government of the country, with the result that the people were oppressed by both and protected by neither. The supervisors of revenue appointed in 1769 to protect the cultivator from the exactions of zamindars, being young and inexperienced officers, did not in the least set matters right, especially as the kanungo, and the zamindars, who alone possessed the required information, refused to part with it. The terrible famine of 1770 served only to intensify the difficulties. The Court of Directors decided in 1772 to stand forth as the Diwan, and instructed Warren Hastings to assume the direct administration of revenue. He improved, to some small extent, the machinery of collection by appointing Collectors, and subsequently by creating Divisional, Provincial and Central Boards of Revenue. The change in the method of assessment, however, proved disastrous. At first quinquennial and then annual leases for the collection of revenue were sold by public auction to the highest bidders, setting aside the existing zamindars and encouraging the introduction of capitalists and speculators, who tried to screw out of the peasants the utmost they could by way of rents and additional illegal cesses on land. The deplorable state of the finances of the East India Company and its anxiety to give high dividends to its shareholders was at the root of the new system. It was chiefly to straighten out these matters and to relieve the agricultural distress in Bengal that Lord Cornwallis came out to India in 1786.

The most important measure of the administration of Lord Cornwallis is the Permanent Settlement of Bengal. The idea of fixing the state demand in perpetuity, first mooted by Francis and later on adopted by Fox in his India Bill, was ultimately recommended to the Indian authorities

<sup>1</sup> In 1928-9, the total acreage of ryotwari holdings was 334,598,000 or 51 per cent of the total area; of permanently settled zamindari or village community holdings 121,017,700 or 19 per cent of the total area; and of temporarily settled zamindari or village community holdings 198,902,000 or 30 per cent of the total area (*India in 1930-1*, p. 169).

by the Court of Directors in 1785, but it was left to Lord Cornwallis, assisted by Sir John Shore, to carry out the policy of Permanent Settlement in Bengal. After inquiries lasting for three years, a settlement was made with the zamindars, who were declared full proprietors of the areas over which their revenue collection extended, so that they might have some legal status which would enable them to fulfil their obligation to the Government, and to induce them to take an interest in their estates. This right was, however, subject to the payment of land revenue and to liability to have the estate sold for failure to pay, no excuses, such as drought or famine, being accepted for non-payment. The Government also reserved the right to introduce any measures they might think necessary 'for the protection and welfare of the dependent talukdars, ryots and other cultivators of the soil'. The assessment was fixed approximately at ten-elevenths of what the zamindars received as rent from the ryots, the remaining one-eleventh being left as the return for their trouble and responsibility. The revenue liability was fixed in a rough and ready fashion without any survey or record of landed rights and interests, or any investigation into the productive capacity of the different classes of soils. In 1793, in consultation with the Court of Directors, the settlement was declared permanent and the assessment unalterable for ever, and the Government specifically undertook not to make any demand upon the zamindars or their heirs or successors 'for augmentation of the public assessment in consequence of the improvement of their respective estates'.<sup>1</sup> The primary object of the East India Company was to safeguard the punctual receipt of the land revenue. For this purpose the expansion of cultivation was indispensable, and in the opinion of the Directors this could only be achieved by a permanent settlement. It may be noted here that while Sir John Shore was at one with Lord Cornwallis so far as the recognition of the zamindars was concerned, he would have preferred to wait for the decennial period of settlement already in force to run out before declaring the settlement perpetual.

§16. Criticism of the zamindari settlement of 1793 in Bengal.—The settlement thus effected is open to criticism on various accounts. In the first place, the essential preliminaries to any settlement, namely a detailed survey, classification of soils and the preparation of a record of rights were dispensed with. Secondly, it was thought impolitic to pry into the internal concerns of the estates and possibly to excite the distrust of the landlords. As for the ryots, it was hoped that the landlords would come to an understanding with them and protect their rights. Nevertheless, as Baden-Powell remarks: 'The fact that the Permanent Settlement was made without any survey, and without any record of landed rights and interests, has proved more fraught with evil consequences than perhaps any other feature of the settlement.'<sup>2</sup>

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 55. See also *Report of the Land Revenue Commission, Bengal*, vol. I, par. 44.

<sup>2</sup> *Land-Systems of British India*, vol. I, p. 289.



The second great defect of the Permanent Settlement was the failure to guard the rights and interests of the ryots, who suffered a double injustice, first, by losing their proprietary rights, and secondly, by being left almost entirely to the mercy of the zamindars, who proceeded to rack-rent them.<sup>1</sup> It was erroneously assumed that the rights of parties claiming an interest in the land were sufficiently established by the customs and usage of the country to enable the Courts to protect individual rights. There was, indeed, a general provision that leases or *pattas* were to be given to the ryots specifying the area as well as the terms and conditions of the holdings, but in practice this was of no avail, as the *pattas* could not be enforced and also, in some cases, because the ryots were unwilling to take them for fear of admitting their inferior position and of committing themselves to the acceptance of conditions which they did not quite understand. It must, however, be admitted that the sad plight of the ryots was in no small measure due to the extremely heavy assessment, which was exacted with great rigour under the existing Sale Law. In the event of default the estate was immediately sold by auction. That being so, it was necessary to assist the landlord in realizing the rents due from tenants to enable him to pay his Government dues with the absolute punctuality that was insisted upon. The zamindars were vested with wide and arbitrary powers of distraint under Regulation VII of 1799. Again, in many cases, the landlord, being unable to meet the state demand, had his estate actually sold. Naturally the successor insisted upon a clear title before he could be induced to purchase it. This meant a more complete supersession of the rights of the ryot and his subjection to more and more extortionate demands on the part of the newcomer. The tenant had to wait for nearly three-quarters of a century before any attempt was made through the tenancy laws of 1859 and 1885 to grant him redress from the grievous wrong he had suffered so long.<sup>2</sup>

It is often asserted that Lord Cornwallis being himself an English landlord, laboured under aristocratic prejudices and desired to create a landed aristocracy here similar to that in England, though the conditions of the two countries were widely different. The Permanent Settlement, however, was emphatically the work of the Company's middle-class servants. Quite possibly the fact that Cornwallis belonged to the English aristocracy made him readier than he otherwise would have been to accept the policy with which his name is associated. But it is certainly not true that he was its sole originator and protagonist. Besides, when he appeared on the

<sup>1</sup> 'The errors [of the Permanent Settlement] were twofold: they consisted, firstly, in the sacrifice of what may be denominated the yeomanry, by merging all village rights, whether of property or occupancy, in the all-devouring recognition of the zamindar's permanent property in the soil; and secondly, in the sacrifice of the peasantry by one sweeping enactment, which left the zamindar to make his settlement with them on such terms as he might choose to require.'—Sir J. E. Colebrook, quoted by Morison in *The Industrial Organization of an Indian Province*, p. 27.

<sup>2</sup> For the period from 1793 to 1859, see *Report of the Land Revenue Commission, Bengal*, vol. I, par. 49.

scene, he found the zamindars occupying such a strongly entrenched position that it would have been impossible to ignore them and set aside the development of a century and go to the root of the problem, as it were, trying to search out the original owners of the soil, as opposed to the zamindars, who started by being merely farmers of revenue. In accepting the *fait accompli* therefore Lord Cornwallis was probably impelled by the inexorable logic of facts. Further, it must be remembered that the all-round ruin in which the agriculture of Bengal was then involved, partly as the result of the kaleidoscopic changes in the post-Diwani revenue policy and the terrible famine of 1770, imperatively called for some drastic solution. There were thus very cogent reasons for some form of zamindari settlement. The entire absence of maps and reliable records of the areas and rent of individual holdings made a ryotwari settlement impossible. Lack of roads and means of communication and absence of trained staff capable of direct collection from the cultivators made some form of agency for the collection of revenue on contract or commission essential.<sup>1</sup> In these circumstances it was felt desirable to acknowledge as proprietors the zamindars, who happened to be the only well-established revenue machinery that was available, and in whose recognition seemed to lie the only chance of agricultural revival.

The third and the most important aspect of the Bengal settlement, namely, perpetuity of assessment, is a question not limited to Bengal alone but of much wider importance. It may therefore be reserved for treatment at a later stage (see §§31-2 below).

§17. The Permanent Settlement in Benares and Madras.—In Benares the British, anxious to follow the Bengal model and as yet not sufficiently familiar with the peculiar system of joint tenure of land, ignored the existence of landlord villages with a strong clan or tribal connexion and dealt with one of the chief co-sharers or some other prominent person on a Permanent Settlement basis (1795). In Madras no definite plan was followed until after the cession of Mysore and the Karnatak districts, when, although a settlement on ryotwari lines had already been initiated, an attempt was made to extend the permanent zamindari settlement to the whole Presidency. There was a considerable diversity of opinion as to the system to be adopted, but the Court of Directors, impressed by the punctuality with which the revenue was paid under Permanent Settlement in Bengal, instructed the Madras Government to enter into a permanent engagement with the zamindars. In north Madras and certain parts of south Madras, individual landlords existed, being mostly descendants of former ruling chiefs, and no difficulty was experienced in settling with them. In south Madras, however, only a few of these landlords—or polygars as they were called—were recognized, and the others were dispossessed as a penalty for having resisted the British power. In the major portion of the Presidency, however, there were ryotwari villages where no such

<sup>1</sup> See *Report of the Land Revenue Commission, Bengal*, vol. I, par. 45.

intermediaries existed, and in pursuance of the instructions of the Court of Directors, an attempt was made to create substitutes out of enterprising contractors. The villages were grouped together into artificial districts or parcels and sold by auction to the highest bidders, who then became the landlords of the whole estate. This experiment failed disastrously as it deserved to do. As Baden-Powell remarks, 'the real zamindar, in his natural growth of a century and a half, was bad enough; but what could be said for an auction-room landlord? Of course, the system failed miserably.'<sup>1</sup> The experiment was therefore abandoned in favour of the ryotwari system strongly advocated by Munro and developed, if not originated, by him. But before the ryotwari system was authoritatively adopted, between one-fifth and one-third of the Presidency had already come under the Permanent Settlement. The course of tenancy legislation for zamindari estates in Madras has already been described.

§18. Subsequent history of the Permanent Settlement: (a) *Under the Company*.—In the days of the Company's rule, Wellesley, Minto, Hastings, Bentinck and Munro had all strongly advocated the extension of the Permanent Settlement to other parts of India on the ground that, judging from the case of Bengal which had experienced a great revival under it, it seemed to hold out sure prospects of rapid agricultural development. The Directors of the East India Company, however, rejected the proposals (1820), in spite of solemn pledges given by proclamation and the expectations raised in all parts of the country.<sup>2</sup>

(b) *Under the Crown*.—After the abolition of the Company the question was revived by Lord Canning on the recommendation of Colonel Baird-Smith who was deputed in connexion with the severe famine of Orissa in 1860 to inquire into the causes of, and suggest remedies for, such calamities. Sir Charles Wood, while agreeing with the recommendation, failed to take any action. Sir Stafford Northcote, the next Secretary of State, proposed in 1867 the introduction of the Permanent Settlement subject to certain conditions, such as that, where 80 per cent of the cultivable land was brought under cultivation and there was no prospect of canal irrigation increasing the produce by more than 20 per cent, the state demand should be fixed in perpetuity. These conditions meant in effect that Permanent Settlement was to be deferred as long as the land continued to improve in value. Lord Kimberley, the Secretary of State, however, finally rejected the proposal altogether in 1883 mainly on the ground that the country was as yet undeveloped. Since then the attitude of the Government has been to regard the question of Permanent Settlement as closed, although from time to time echoes of the old

<sup>1</sup> *Land-Systems of British India*, vol. I, p. 292.

<sup>2</sup> As Ranade pointed out, 'Captain Wingate and his associates who were the great pioneers of the Bombay survey always regarded Permanent Settlement as the consummation of their land policy, to which the periodical settlements were only intended to serve as a preparation and midway introduction.'—See *Report of the Land Revenue Assessment Committee, Bombay* (1926), p. 72.

controversy of Permanent versus Temporary Settlement continue to be heard. The controversy in recent years caused by the proposal of the Bengal Land Revenue Commission to scrap the zamindari Permanent Settlement of Bengal and introduce a system of state purchase of zamindaris is reviewed in §32.

§19. Temporary Settlement with the remaining zamindars in Bengal and with the talukdars of Oudh.—Those parts in Bengal that are not permanently settled for one reason or another come under a temporary settlement, under which the percentage of assets taken is very high, as much in fact as 70 per cent, the holders of the settlement being usually middlemen, of a class for whom 30 per cent of the assets is regarded as ample remuneration. As to the mode of assessment, the system adopted in Bengal is identical with that in use in Agra which is described below.

The component villages under the talukdars are so important that virtually the Oudh settlement may be regarded as a modified form of the joint village settlement system which we now proceed to describe.

§20. Mahalwari settlements.—The temporary settlement as developed in the Agra province is the typical form adopted in provinces where mostly village communities with landlord rights are dealt with. An attempt was at first made to settle the villages on a permanent basis with a revenue farmer or some other person of note. The Home authorities, however, would not hear of a permanent settlement, and besides, in 1819, Holt Mackenzie, as secretary to a commission of inquiry, drew attention to the existence of village proprietary bodies and pointed out that they had to be reckoned with, that the single-landlord ideas derived from Bengal could not very well be applied, that a proper survey and a careful record of all rights whatever were indispensable, and that permanent settlement as a general measure could not be thought of.

The question of settlement in Orissa also came up at the same time as inquiries were set on foot in the North-Western Provinces (now called the United Provinces of Agra and Oudh), and to deal with both cases the famous Regulation 7 of 1882 was passed. This, together with later amendments, is the chief basis for all subsequent temporary settlements with landlords and village bodies.

In Agra, barring a few cases of individual zamindars and Agra talukdars, in the majority of cases there was no person above the village bodies. These were, therefore settled with directly in their collective capacity, though a co-sharer of standing and respectability was generally selected to undertake the primary liability in connexion with the payment of land revenue, and he signed the settlement on behalf of all the co-sharers, who were made jointly and severally responsible for the assessment. As the overlord rights of the Agra talukdars were very much inferior to those of the proprietary rights of the Oudh talukdars, their claims were disposed of by making the assessment payable by village bodies under them just so much higher as was necessary, and 10 per cent of the land revenue was paid as talukdari allowance to them directly from the Government

treasury. Returning to the settlement with the village communities in Agra, we must note that a section of a village or even an individual co-sharer (above a certain limit) can move for what is called 'a perfect partition' of separate and individual revenue liability, to take the place of joint liability. The work of settlement is partly judicial and partly fiscal, referring respectively to the ascertainment and record of rights in land on the one hand, and, on the other, the assessment of tenant rents. As to the settlement, we have the usual stages of demarcation, survey, record of holdings and rights, and lastly, the assessment itself.

§21. **Principles of assessment in mahalwari systems.**—The principles of assessment which we are about to describe must be understood to apply to all the mahalwari systems. After experimenting with several methods, such as the valuation of net produce, etc., the Government adopted the following plan of fixing the assessment. The actual rental value of the lands in the village is taken as the basis, direct or indirect, of the assessment. Revenue is technically said to consist of 'a fraction of the assets' of the estate as annually received. This fraction has varied from time to time. It was very high in the beginning under the East India Company, being over 80 per cent;<sup>1</sup> it was reduced to 66 per cent in 1833 by Lord William Bentinck; under the Saharanpur Rules of 1855 it was further reduced to about 50 per cent; and according to official claims the actual fraction realized in most cases is well below 50 per cent at the present time (see also §43).

The assets mainly consist of (i) the total rents actually received, which constitute by far the most important determining factor in Agra, (ii) the calculated rental value in the case of lands held by the proprietors themselves or allowed by them to be rent free, and (iii) certain miscellaneous profits, such as those from valuable waste lands, income from grazing, fruits and wild produce, etc. Of these three, the first two, making up the rental assets of the estate, are the principal factors.

This is the general principle of assessment in the different mahalwari settlements in Agra, Oudh, the Punjab, and the Central Provinces, though there are differences in detail in the various provinces. Actual rates of rent paid at the time of settlement are the basis of the Agra plan. In the Central Provinces, the necessity for securing more perfectly an equality of incidence of rents has led to the adoption of a peculiar method to be noted later on. In the Punjab, since much of the land is held by the proprietors or by tenants who pay in kind, a direct process of calculating cash rental cannot be followed. It is therefore necessary to ascertain a fair rate for all land of a given class on the basis of actual cash payments on the specimen holdings; and these representative values are applied to all the lands in the village.

<sup>1</sup> For example in Orissa, in 1822, it was authoritatively declared to be 83.3 per cent of the assets; in 1840, 65 per cent with a permissive reduction to 60 per cent, while at the re-settlement of 1901 it was brought down to 54 per cent (see *Land Revenue Policy of the Government of India*, p. 13).

§22. Mahalwari settlement operations in the United Provinces.—At the commencement of the settlement operations in the United Provinces, the Settlement Officer inspects the villages and groups them into assessment circles possessing general similarity of soil and physical character. The rent for each class of soil is then determined. The chief guide adopted for this purpose is the cash rental of the lands under ordinary crops held by permanent and responsible tenants who depend for their livelihood upon their holding. The Settlement Officer then determines the rent rate with reference to the ascertained rentals, after taking into account such factors as means of communication, increase of population, crop statistics and increase in the area cultivated.<sup>1</sup> Where there are no cash rents, the Settlement Officer takes as his basis either the rents paid in the village for similar lands or his own circle rates.

*The system as applied to Oudh.*—The Oudh settlement is practically the same as in Agra in all its features including assessment, except that the settlement is only occasionally with village communities, and in most cases, single talukdars are dealt with in one sum for an estate comprising a greater or less number of villages. The talukdar's revenue payment is based on the aggregate of the sums leviable as rent from each village in his estate. In some cases, as already seen, where the village communities under him have succeeded in preserving their rights, a 'sub-settlement' with these is made, and the payment to the talukdars is fixed so as to allow for the talukdar's profit, which is in no case less than 10 per cent of the land revenue.

§23. Mahalwari settlement of the Punjab.—Here we have the same system as regards survey, record of rights, etc., but there is a difference in detail so far as the method of assessment is concerned. There is no considerable body of tenants and of such as do exist many pay in kind. The Settlement Officer therefore calculates direct revenue rates per acre for each kind of soil in the village estate, basing them on what the rental assets would be if a cash rent were uniformly paid. For this purpose, there is a division of the area into circles in each of which broadly distinguishable classes of soil are adopted. Then certain standard rates are fixed after taking a number of fair specimen holdings representing each kind of soil and finding out what they actually pay in cash, and failing this, what the cash value of the grain rental is. These standard rates are utilized as a general basis for the assessment. In the Punjab, though theoretically revenue is collected not from individual cultivators but from joint holders of village estates jointly and severally responsible for it, in practice the share of revenue due from each is distributed and can be recovered separately. The cultivators therefore are generally in the same position as peasant proprietors in Bombay and Madras.<sup>2</sup> Under the Punjab Land Revenue Amendment Act (1929) the share of the state has been fixed at one-fourth

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 67.

<sup>2</sup> *ibid.*, par. 168.

of the net assets and the period of settlement has been extended to 40 years. (See also §43 below.)

§24. *Malguzari settlement of the Central Provinces.*—The system in the Central Provinces, again, is practically the same as the one in Agra so far as the basis of assessment is concerned. There is, however, a difference in respect of one important particular. In the Central Provinces, the revenues of the villages had been farmed out by the Marathas to individuals generally called *malguzars*. The British Government's anxiety, however, to deal with individual landlords led to the conferment of a proprietary status on these and their recognition as heads of villages, although the villages here were of the *ryotwari* type as in Bombay and Madras, consisting of aggregates of cultivators each claiming exclusive ownership of his holding. Extensive protection had therefore to be given to them, having regard to the fact that from the position of proprietors they had been degraded to that of tenants of the *malguzars*. The Settlement Officer therefore has not only to fix the revenue demand to be made from the *malguzars* but also to determine the rent payable, by practically all classes of tenants, to the *malguzars*.<sup>1</sup> It is obvious therefore that the method of calculating the rental value must be more accurate than where it merely serves as a general basis for the revenue demand on the part of the Government.

The fixation of rents in the Central Provinces is thus a highly complicated process and is achieved by an elaborate system of grouping and soil classification according to what are called 'soil units' which are intended to be measures of the productive capacity of the soil. 'The value is assumed to depend on the average net profits of cultivation, and to each class of soil in every position a factor is assigned expressing its value relatively to other soils, so that the soil unit varies, not only with the fertility of the soil, but also with the position of the land.'<sup>2</sup>

§25. *Ryotwari settlement: the ryotwari system of Madras.*—We have already noticed above<sup>3</sup> how the *ryotwari* system was adopted in Madras after the failure of attempts to introduce the Permanent Settlement. The principles of settlement are not embodied in any statute and are derived from extensive instructions. There is an accurate survey of each village, and a village map with a descriptive register of all holdings is prepared. The lands are classified according to the productive capacity of the soil, which is estimated in terms of quantity of some one of the ordinary grain crops. The grain value is converted into money value at a commutation price, based generally on an average of 20 non-famine years previous

<sup>1</sup> 'The fixation of rents which is the most important settlement operations is complicated by the general and increasing tendency on the part of *malguzars* to allow rents to continue at a low figure and to exact *nazaranas* on new leases of surrendered holdings or on the leasing of land for the first time' (*Taxation Enquiry Committee Report*, par. 69).

<sup>2</sup> *Taxation Enquiry Committee Report*; for further details, see Baden-Powell, *Land-Revenue and Tenure in British India*, pp. 186-8.

<sup>3</sup> §17.

to the settlement. From this, the expenses of cultivation being deducted, we get the net produce, of which about one-half is fixed as the maximum land revenue. There are abatements allowed for traders' profits, and for the distance the grain has to be carried to the market, and on account of vicissitudes of season and unprofitable areas. 'After this, soils of similar grain values, irrespective of their classification, are bracketed together in orders called *taram*, each with its own rate of assessment. These rates are further adjusted with reference to the position of the villages in which the lands are situated and the nature of the sources of irrigation. For this purpose, villages are formed into groups; in the case of dry lands, with reference to their proximity to roads and markets, and, in the case of wet lands, with reference to the nature and quality of the water supply. This accounts for different rates of assessment being imposed on lands of similar soils but situated in different groups or under different classes of irrigation. The assessment thus fixed represents the commuted value of the Government share of the surface cultivation. But if minerals are discovered in the land, a separate assessment will be levied therefor.'<sup>1</sup>

§26. The ryotwari system of Bombay.—Unlike Madras, Bombay possesses a Land Revenue Code<sup>2</sup> which regulates all matters connected with settlement. There are also special Acts to deal with the special classes of estates, such as those of the talukdars in Gujarat, the khots in the Konkan and the few joint villages of the Kaira and Broach districts.

In our general historical survey of land revenue, we have made reference to the revenue administration of the Marathas and its deterioration under the last of the Peshwas as a result of the introduction of revenue farming. When the British took over the Deccan from the Peshwas, they decided to put an end to the pernicious farming system and go back to the more equitable system of Nana Farnavis.

After various short-lived experiments and several proposals, including a general village settlement of the mahalwari type, the ryotwari system was eventually adopted. In 1825 Pringle was ordered to undertake a detailed survey of the land. He also tried to introduce an elaborate land classification with extreme accuracy, on the basis of net profits obtained. This required an infinite mass of details, and the whole experiment proved a failure on account of the high pitch of assessment in which it resulted. The failure of the experiment was emphasized by a series of famine years which supervened.

The Government therefore directed that the whole operation should be commenced *de novo*, and in 1896 entrusted the task to two officers; Mr Goldsmid and Lieutenant Wingate. The system introduced by them, as modified from time to time, is essentially the system now in force.<sup>3</sup> In

<sup>1</sup> Standing Orders of the Board of Revenue, Madras, quoted in *Taxation Enquiry Committee Report*, par. 64.

<sup>2</sup> The *Bombay Land Revenue Code* (1879) was amended in 1939 in important particulars. See §44 below.

<sup>3</sup> *Report of the Land Revenue Assessment Committee, Bombay* (1926), pp. 8-9.



1840, they submitted their report, in which they laid down the general principles for the basis of a survey settlement suited to the conditions of the Bombay Presidency. They recommended moderate assessment, settlement for 30 years, protection of improvements from taxation during the term of settlement, recognition of property in soil, perfect freedom of management with regard to sale, transfer and rents to be charged to sub-tenants, etc. Later on, Captain Davidson was appointed to collaborate with these officers, and in 1847 they issued a report which is well known as the Joint Report, in which are elaborated the principles underlying the present system.

According to the system adopted in this Report, the basis of net profits for the classification of land as under Pringle's system was abandoned. The depth and the texture of the soil were taken into consideration instead. The assessment itself was regulated by experimental rates based upon general considerations as to rainfall, agricultural prices, prosperity of the land and so on, the fundamental principle being that no more should be asked from the cultivator than what he could easily afford to pay. The *mirasi* and *upri* tenures of the olden days were merged into a uniform tenure known as the survey or occupancy tenure. The title of the cultivator to his holding was declared to be indestructible so long as he continued to pay the assessment. He was entitled to relinquish any fields or take up others so as to suit the extent of his liability to the means at his command. His position and status have been defined in the Bombay Land Revenue Code (1879) on this basis. The tenure so created is known as ryotwari, under which the proprietary cultivator holds his land direct from the Government. Full occupancy tenure is heritable, transferable and otherwise alienable without the permission of the Government. The occupancy is liable to forfeiture for failure to pay the assessment. A guarantee is given that no additional taxation will be levied on account of improvements made by the occupant.<sup>1</sup>

§27. Main features of settlement in Bombay.<sup>2</sup>—The ryotwari system of Bombay has the same general features as that of Madras, such as demarcation of boundaries, the determination of survey numbers which once fixed are not altered, and the classification of the soil, but the mode of assessment is different. The relative values of the soils are classified once for all according to their depth, texture, capacity for retention of moisture and other physical properties bearing on fertility, into several groups, and expressed in fractions of a rupee, 16 annas representing the best class of soil. The object of this classification, unlike that in Madras, is not to base the assessment on the net produce but merely to use it as a basis for the distribution of the total revenue demand fixed for the area.

Three main steps in the process of fixing the assessment, as directed by the Bombay Land Revenue Code (Amendment) Act of 1939, may be distinguished: (i) The first step is the dividing of the lands in a taluka

<sup>1</sup> See Keatinge, *op. cit.*, pp. 20-1.

<sup>2</sup> See Bombay Land Revenue Code (1879) and (Amendment) Act (1939), also §44 below.

or part of a taluka (to be settled) into groups. The groups are to be formed on a consideration of the following factors: physical configuration, climate and rainfall, markets, communications, standards of husbandry, population and supply of labour, agricultural resources, the variations in the area occupied and cultivated during the last 30 years, wages, prices, yield of the principal crops, ordinary expenses of cultivating such crops, rental values of lands used for agriculture and sales of lands for the purpose of agriculture. A 'group' means therefore all lands in a taluka, or part of a taluka, which are sufficiently homogeneous in respect of the above-mentioned factors. (ii) The second step is the fixing of the standard rates for each group. 'Standard rate' means, with reference to any particular class of land such as dry crop, rice or garden land, in a group, the normal assessment per acre on land in that class of 16 annas classification value. The standard rates are to be fixed on a consideration of all the factors mentioned in (i) above and are to be such that the aggregate assessment (or revenue demand) on the occupied lands in any group is not to exceed 35 per cent of the average of the rental values of such lands for a period of 5 years immediately preceding the year in which the settlement is directed. It may be pointed out here that rental value has been formally adopted as the basis for fixing the maximum assessment under the recent (1939) Bombay Land Revenue Code (Amendment) Act. The Bombay system was purely empirical for a long time, as is shown by the fact that the decision of the Settlement Officer as regards the revenue rates depended not upon the formal working out of results based on theory, but rather upon the subjective impressions of local knowledge and experience.<sup>1</sup> In recent years, however, the rental value, as ascertained by records of leases and sales and other similar factors, has been adopted as an important basic factor for fixing the assessment in practice.<sup>2</sup> Rental value, which has now been definitely and legally adopted as the basis for fixing the maximum assessment, is defined by the Bombay Land Revenue Code (Amendment) Act (1939) as 'the consideration (including premia, if any, or any sum of money paid or promised, or a share of crops, or service, or any other thing of value rendered periodically or on specified occasions) for which land is or could be leased for a period of one year for its most advantageous use'. The Settlement Officer is directed to ascertain, in the manner prescribed by rules issued under the Act, the rental value of lands for the purposes of settlement. (iii) The last step is the determination of the revenue liability from aggregate to detail, fixing the land revenue assessment of individual survey numbers and sub-divisions. This, as we have already mentioned, is carried out with the help of the annewari classification of the soil which serves the purpose of a sliding scale. Thus, if the maximum rate be Rs. 3 per

<sup>1</sup> *The Bombay Survey and Settlement Manual*, quoted in the *Taxation Enquiry Committee Report*, par. 66.

<sup>2</sup> See Bombay Government's Resolution on the *Report of the Land Revenue Assessment Committee, Bombay* (1926).

acre for the 16-anna field, it would be Re. 1-8 per acre on a field classified as 8 annas.<sup>1</sup>

It is noteworthy that under the amended Bombay Land Revenue Code (1939), the Provincial Government is empowered to vary the assessment in any year in accordance with changes in prices where a particular settlement is declared to have been made with reference to specified prices of agricultural produce. A much-needed element of elasticity in the administration of the land revenue system has thus been introduced. The lack of such a provision was a source of great hardship to the agriculturists during periods of rapidly falling prices such as marked the depression of 1929-33. On the other hand, it is but fair that the Government should be entitled to higher assessment in money value when agricultural prices show a substantial rise. Such an arrangement deserves to be introduced in other provinces as well.

There are certain restrictions as regards the increase in assessment resulting from a revision, according to which the increase is limited to 25 per cent on the total for a whole taluka and a group, and 50 per cent on that of a village, and survey number or subdivision. Private improvements are protected by the provision that increases in rental-value due to improvements effected in land at the expense of holders is not to be taken into account in fixing the revised assessment.

§28. The Assam system.—In Assam, the only proprietors were the Permanent Settlement landholders of the older Bengal districts and a few other permanent cultivators enjoying a title, which is called landholder's title, based on occupation of land for ten years before the Regulation of 1886, and after the Regulation, on lease or grant of settlement for ten years. A great deal of the land is also held on an annually renewed permit or *patia*, or at least on a lease which is for less than ten years. In Assam, waste land rules are especially important, as hardly 25 per cent of the area of any district is under cultivation.

Tea gardens are held on leasehold tenure for long terms at low rates of assessment. After the expiry of the term of lease the land is liable to be assessed under the laws in force, provided that the rate cannot be higher than that payable on the most highly assessed lands in the district cultivated with any ordinary agricultural crop.

§29. State ownership versus individual ownership.—Before entering upon a critical examination of the present land revenue system and the various controversial questions arising in connexion with it, we shall dispose of the question whether the state is the universal landlord or whether there is indisputable private property in land in India. At the very outset, we may say that no clear and unambiguous answer can be given to the question that is thus propounded, and that, in any case, for all practical pur-

<sup>1</sup> The system of settlement in Berar is similar to that prevalent in Bombay. In Sind, where assessment rates depend on irrigation, and not on rainfall which is negligible, the period of settlement is shorter than in the Bombay province.

poses, it does not very much matter whether we call the land revenue a rent or a tax.

We shall proceed at first to discuss the question on the usual lines. The specific issues that arise have been stated as follows by the Taxation Enquiry Committee. (i) Did the state claim exclusive proprietary rights over the land (a) under Hindu rule, (b) under Muslim rule? (ii) Did the British Government succeed to any such rights? (iii) Is the state now the proprietor of land held (a) on zamindari or (b) on ryotwari? (iv) If not, are the zamindars and ryots respectively the possessors of the proprietary right subject to the payment of land revenue? (v) Should the land revenue be described as a tax or rent?

As regards the first two points, the opinion is generally held that the state never claimed exclusive proprietary right over the land before the British era and that therefore the British could not be said to have *succeeded* to any such claim. In this connexion, the views of Mountstuart Elphinstone, H. H. Wilson, Baden-Powell, etc., and also an elaborate judgement of the Bombay High Court, in a case from Kanara disposed of in 1875, are quoted. The judgement in question endorses the view of Wilson that the proprietary right of the sovereign derives no warrant from the ancient laws or institutions of the Hindus<sup>1</sup> and is not recognized by modern Hindu lawyers as exclusive or incompatible with individual ownership. Similarly, with regard to Muslim law, Colonel Galloway summarized his conclusions as follows: 'The soil was the property of the cultivators as much as it could be. Law gave no power, policy gave no motive to remove him, to disturb him, so long as he paid his taxes. When he did not, his lands could be attached; and so can those of the first peer holding by the firmest tenure of the English law. The right of the Indian husbandman is the right of possession and of transfer; and the rate of his land tax was fixed; often, indeed, the amount. In what respect, then, is his right of property inferior to that of the English landholder?'<sup>2</sup>

What holds good of northern India and the practice of Muslim rulers, applies with greater force to the case of southern India, where the existence of private property in land was admitted even more unmistakably, especially in those parts of the country which never came under the Muslim rule.

As regards the first two points therefore the Taxation Enquiry Committee were unanimously of opinion that under both Hindu and Muslim rule, the state never claimed the absolute or exclusive ownership of the land and definitely recognized the existence of private property in it.<sup>3</sup> This view received support from the Bengal Land Revenue Commission (1940), who pointed out that the state (at the time of the Permanent

<sup>1</sup> 'Land is his who first cleared away the jungle, as the deer is his who first brought it down' (Laws of Manu quoted by Baden-Powell, *Land-Revenue and Tenure in British India*, p. 123).

<sup>2</sup> *Taxation Enquiry Committee Report*, par. 80.

<sup>3</sup> See also J. Briggs, *Land Tax in India*, p. 127.

Settlement), although still regarded theoretically in parts of India as the supreme owner of the land, never in practice claimed any actual proprietary rights in the soil. Its claim has been limited to a share of the produce.<sup>1</sup>

During the period that intervened between the death of Aurangzeb and the firm establishment of British rule in this country, provincial governors and adventurers seem to have put forward all kinds of extravagant claims. And the tendency to rack-rent, which was the characteristic of this chaotic period, made people less and less inclined to insist on the recognition of their private rights in land, their anxiety being rather to secure for themselves the freedom of relinquishing the land when they liked and thus escaping the revenue burden. The state thus put forward claims of exclusive ownership which the people did not care to contest. Therefore Baden-Powell is probably right when he says: 'It is hardly possible that Mr James Grant, and Colonel Munro and many others could have been mistaken about the fact that in their time (that is, the time of the Permanent Settlement of Bengal) all Governments did claim to be landowners.'<sup>2</sup>

The claims put forward by the British Government from time to time were neither consistent nor uniform, although the general trend of their policy can be shown to have been towards admitting private ownership in land. Referring to the cultivated land in villages and estates (not the waste land nor the particular lands of which the Government are admittedly the immediate owners), Baden-Powell observes that the British Government everywhere conferred or recognized a private right in land, and in large areas of the country (Bengal, Oudh, the whole of northern India, for example) they expressly declared the proprietary right of the landlords and the village owners.<sup>3</sup>

It is generally agreed that, so far as the zamindari or landlord estates in Bengal and elsewhere are concerned, private property in land is beyond dispute. On the other hand, it is equally beyond dispute that the Government have full proprietary rights on waste lands and over the *khas mahal* estates, such as those in Bengal and Bihar which are under

<sup>1</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 41.

<sup>2</sup> The property right of the Crown in land is said to have been definitely asserted by Tipu Sultan. On the other hand, Mountstuart Elphinstone reporting on the *mirasi* tenure under the Marathas wrote as follows: 'A large portion of the ryots are the proprietors of their estates, subject to the payment of a fixed land tax to Government; their property is hereditary and saleable, and they are never dispossessed while they pay their tax, and even then they have for a long period (at least thirty years) the right of reclaiming their estates on paying the dues of Government' (*Report on the Territories Conquered from the Peshwas*).

<sup>3</sup> This was, however, sometimes officially disputed. It was urged that even in Bengal, the zamindars had not been granted complete proprietary rights; that the Permanent Settlement was granted to them as a grace which was considered good policy; that it was not founded on the principles or practice of previous Governments; and that, apart from the unalterable assessment, the Government still remained proprietors, and the zamindar an agent for collecting revenue, or a tenant under the Government.

the direct management of the Government. It is with reference to ryotwari lands that opinion is somewhat sharply divided. On the one hand, it is held that the position of the ryot, or 'occupant' as he is called in Bombay, is not essentially different from that of the zamindar, and that he holds land as full proprietor subject to the proviso that he pays the revenue assessment. The fact that the Government can take the land into their possession if the holder fails to pay the assessment does not prove that he has any the less right of property in it. For this is by no means an uncommon proviso and it applies in the case of all private property, which the Government can attach in the event of default. The utmost that we can say is that the Government regard the land as hypothecated to themselves as security (in the last resort) for the land revenue assessed on it.<sup>1</sup> One of the features which distinguishes ryotwari from zamindari lands, is that the former can be relinquished at the option of the holder. This, however, appears to be too slender a basis for the theory that the state is the real landlord in ryotwari areas. This feature, like the term 'occupant', owes its origin to times when the cultivator, harassed by exactions and oppressions, was reluctant to be tied down to his land and made unconditionally responsible for the payment of the revenue demand. The option of relinquishing the land was a concession to the natural fears of the cultivator and was not due to any intention on the part of the British Government to withhold the right of ownership from him, which, in fact, they were anxious to confer. Another point urged in favour of the theory of state ownership is that, in some provinces, agricultural land cannot be put to non-agricultural uses without the permission of the Government and is further liable to revised assessment when such use is allowed. But this may be regarded as one of those restrictions on the use of private property, for example restrictions imposed in the interests of public health, which are common in all civilized countries. We may therefore endorse the view expressed by the Taxation Enquiry Committee that both the zamindars and the ryots are possessors of proprietary right subject to the payment of land revenue, though in the latter case, it is not possible to arrive at an exact and general definition of the position of the landholder.<sup>2</sup> We may also refer to another view, namely that the Indian conception of land tenure is a compromise between the English theory of absolute property in land on the one hand, and the extreme of state ownership on the other. It is neither wholly the one nor the other, but something betwixt and between. The position may be described as restricted Government ownership or restricted private ownership. The landlord's or ryot's title is acknowledged, but subject to the limitation of the state's joint interest or concurrent right in land, and in northern India subject also to the claim of the tenants to semi-proprietary rights such as that of fixity of tenure.<sup>3</sup>

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 49.

<sup>2</sup> *Taxation Enquiry Committee Report*, par. 83.

<sup>3</sup> Morison, *op. cit.*, p. 18.

§30. Land revenue : a tax or rent ?—If private ownership of land is granted it follows logically that the land revenue is a tax and not a rent. All the arguments advanced for or against state landlordism have by implication the same amount of cogency (or the lack of it) in deciding whether land revenue is a tax or a rent. We may, however, mention some additional points specifically brought forward in connexion with the tax or rent question.<sup>1</sup> It is argued, for instance, that land revenue differs from a tax and is akin to rent in that it cannot be altered according to the exigencies of the state during the long period for which it is fixed, and in the concessions granted to land revenue payers, such as rent-free house sites, the use of common grazing lands, etc. As against this, it may be urged that there is nothing to prevent the state from revising the rent annually except considerations of policy, expediency and economy. Further, it must be remembered that rentals on private lands are not necessarily fixed for a long term of years. In fact, it is notorious that many of the leases are renewable every year. As regards rent-free house sites, common grazing lands, etc., all these concessions do not appear to be of a decisive character in the present discussion. The Government, in their capacity as an enlightened state, and as concerned with the welfare of the cultivators, may well grant facilities of this kind without thereby establishing the right of landlordship. A further somewhat trivial argument in support of the view that land revenue is a tax is that the process of its assessment and collection is similar to that in the case of a tax.

Lastly, we may refer to another argument which has been advanced in favour of private proprietorship of land. The Income-Tax Act of 1886 exempted agricultural incomes and this, it is said, amounts to an implicit admission that landed incomes already pay a tax. If land revenue had been a rent, that is a payment to the Government as landlords in recognition of their ownership, a further tax would have been justified.<sup>2</sup>

The above discussion shows that the whole question is highly complicated and does not admit of a categorical answer one way or the other, although the case for private ownership is very much stronger than that for state landlordism. We agree with Baden-Powell's verdict that the controversy is a 'profitless war of words'. It is profitless because it is endless. There are arguments for and against each of the rival theories, and some

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 44-5.

<sup>2</sup> We must state, however, that this argument is not conclusive in favour of private ownership, because it is quite possible to argue that agricultural incomes are exempted from taxation, as the number of cultivators in the enjoyment of incomes above the free minimum income-tax limit, after paying the Government land revenue, is comparatively small, and that it is not worth while trying to tax them; or secondly, it is open to the Government to explain that the failure to assess landed incomes to income-tax is a mere omission which they may offer to remedy at any moment (this view is confirmed by the fact that the Government of Bihar has imposed a tax on agricultural incomes since 1938 and other governments are contemplating a similar step); and lastly, it may be pointed out that in England, in addition to the land tax, income-tax on agricultural profits is paid, but this does not render private property in land open to dispute there.

people may be impressed by one set of arguments and others by the opposite set, and this not necessarily owing to any conscious bias on either side. It is also profitless because no important question of actual practical policy seems to depend on how it is settled, and it is the practical aspects of the matter that are important rather than the technical juridical position. If land revenue is not so limited as to leave the proprietor something beyond the barest necessities of life, the full and unconditional admission of the ryot's proprietary right in his holding is worth absolutely nothing to him, just as, if all his present rights in land, of sale, mortgage, etc. are left intact and the Government assessment is moderate, it does not matter to him if the Government formally consider themselves as the universal landlords. Let us illustrate by a few instances the position that the whole discussion is of little practical importance. For example, the question of legislative control on the executive in the matter of land revenue has practically nothing to do with the question whether the Government are the proprietors of the land. Even if the state were the landlord, the state does not mean merely the executive. How far one part of the Government, namely, the legislature, should interfere with the discretion of another part, namely, the executive, is entirely a matter of administrative convenience and efficiency and of political ideas. It may well be argued that, since the land revenue system touches the well-being of millions of people in this country, a more stringent control over it by the legislature is desirable. It is true that in a fully responsible Government all taxes are necessarily voted by the legislature, but this does not mean that no other charges than taxes proper can be voted similarly. The utmost we may grant is that the case for legislative control is somewhat reinforced by, without positively requiring, the hypothesis that land revenue is a tax and not a rent.

Again, it is sometimes said that if we admit state landlordism we should have to admit also the right of the state to exact the full economic rent.<sup>1</sup> But this is a consequence from which we cannot escape, even if we prove that the state is not the landlord, because it is a universally accepted maxim of taxation that theoretically the whole of the economic rent may be absorbed in taxation without in any way hurting the taxpayer, provided we can be quite certain that we have isolated the economic rent (the real unearned increment) and not included in it other elements,

<sup>1</sup>One of the lessons which V. G. Kale would draw from the *Bardoli Report* is the practical importance of the discussion of the question whether the state or the individual is the landlord (see 'A Lesson from Bardoli', *Indian Journal of Economics*, July 1929). The Bardoli muddle was the result of a perfunctory attempt to apply in practice the rental value and revenue index theory of F. G. H. Anderson, the then Settlement Commissioner of Bombay, and Anderson was a whole-hearted believer in the Ricardian theory of rent. This much may be granted. But the Ricardian theory of rent in no way rests on any assumption regarding the state ownership of land. Anderson himself declared that 'land revenue is due to the state quite independently as to who "owns" the land' (*Facts and Fallacies of the Bombay Land Revenue System*, p. 142).



namely, wages, profits, and interest. The practical results will not be very dissimilar whether we profess to apply canons of rent or canons of taxation to the assessment of land revenue. This is seen by the fact that the Government, without definitely committing themselves to the view that land revenue is a tax and not a rent, saw no harm in instructing the Taxation Enquiry Committee to study the incidence of land revenue and to point out any defect in the system *from the standpoint of the canons of taxation*, and even to suggest a complete change of system if necessary. As regards arbitrary enhancements of assessment or rack-renting, no civilized state would think of justifying this species of oppression on the ground that it is the landlord and is therefore legally entitled to charge what it likes for the use of land. The state cannot afford to stand merely on legal rights; it must be prepared to be judged by moral standards, and the Government cannot possibly dispose of complaints about excessive assessment merely by taking shelter behind the theory of state landlordism. They have generally tried to argue, whether successfully or not, that the land revenue is not really as burdensome as alleged by its critics. Even supposing that the state is the landlord, we must expect it to behave at least like an enlightened landlord and, therefore, in its own ultimate interest, to regulate the land revenue in such a manner as not to trench upon the legitimate profits of the cultivator and reduce his incentive to work or lower his efficiency. A benevolent and enlightened landlord would not, for instance, exact a rent from uneconomic holdings. He would rather consolidate the holdings and would charge rent only when they are of such a size as to pay the costs and leave a surplus. The case for exemption of uneconomic holdings can therefore be argued quite as well on the assumption of Government landlordship as otherwise. The policy of a moderate levy receives further support from the consideration that the state has no interests separate from those of the people. The state serves itself best by serving the people because the state is the people.

In connexion with this controversy, it is worth while pointing out that there is an agreement on certain fundamental matters between people taking different sides in it. For example, although the Government have sometimes flirted with the theory of state landlordism, their actual policy has been to foster the development of a strong sense of individual ownership, and they have generally been in cordial agreement with the view that it would be dangerous to do anything to disturb it. The average unsophisticated cultivator in India has no doubt whatever in his own mind that, so long as he is free to sell, lease, mortgage and inherit landed property—rights which the most extreme advocates of state landlordism in India are not prepared to disturb—Government landlordship, if he has ever heard of such a thing, is merely an empty name, and he will not tolerate any serious interference with his present rights by the Government.<sup>1</sup> It is also generally agreed that in considering the incidence of

<sup>1</sup> The ryot in Mewar is supposed to have ever in his mouth the common though expressive adage "*Bhogra dhanny raj ho, bhoomra dhanny maj ho*" "the tax be-

taxation, land revenue should be regarded as a tax, and the Taxation Enquiry Committee endorsed this view although on the curious ground that land revenue 'forms a deduction from the national dividend'.<sup>1</sup>

Further, all important questions of land revenue policy, such as the pitch of assessment, period of settlement, etc., can be and are being discussed without any sustained reference to the controversy as to whether land revenue is a tax or rent. In these circumstances, if the Government were to declare in unmistakable terms that they fully recognized private property in land and abandoned all pretensions to universal landlordism, this would set at rest much futile discussion and serve to reassure the people. Moreover such an admission need not in any way be inconvenient from the fiscal or any other point of view.

§31. *Permanent versus temporary settlement.*—The great distress from which large numbers of the people suffered in India, owing to the serious and widespread famines which visited the country towards the close of the last century, attracted attention to the land revenue policy of the Government, which was criticized generally and province by province by the late R. C. Dutt, who, along with certain retired European members of the Indian Civil Service, presented a memorial on the subject to the Secretary of State. A little previously to this (1900) R. C. Dutt had also addressed his 'open letters' to Lord Curzon, whose Government published an important Resolution in 1902 replying to the criticisms and outlining their general policy after considering the reports submitted by the Provincial Governments.

One of the points urged by Dutt was that if the Permanent Settlement had been introduced 40 years previously, that is, when its extension was proposed by Lord Canning in 1860, India would have been spared the 'dreadful and desolating famines' of the close of the nineteenth century. He attributed to the Permanent Settlement the prosperity of the Bengal ryots, their resourcefulness and greater resisting capacity in years of bad harvest, the promotion of agricultural enterprise, investment of private capital and its accumulation and devotion to useful industries, public institutions and works. Although the Permanent Settlement does not now count as many adherents as it once did either among officials or non-officials, it is not altogether a dead issue yet. For example, a number of witnesses who gave evidence before the Bombay Land Revenue Assessment Committee (1924-5) declared themselves in favour of permanent settlement. In Bengal the controversy obtained a fresh lease of life following the appointment of the Land Revenue Commission and the publication of its findings (see §32 below). It would not therefore be amiss if we were to set out briefly the arguments for and against it with particular reference to its operation in Bengal.

longs to the king, the land belongs to me".—Briggs, *op. cit.* p. 90. This attitude is not peculiar to the cultivator in Mewar but common to the ryot in all parts of India.

<sup>1</sup> *Taxation Enquiry Committee Report*, par. 84.

Those who uphold it contend that it has been brilliantly successful in Bengal.<sup>1</sup> (i) Financially, they say, it has ensured to the state a fixed and stable revenue without the necessity of incurring heavy expenses in connexion with periodical re-assessment and collection. (ii) Socially, it has enabled the zamindars to act as the natural leaders of the ryots and to show their public spirit in a practical manner by helping the spread of education and sound ideas on sanitation, and in other ways.<sup>2</sup> (iii) Economically, it has secured agricultural enterprise and prosperity and a resourceful peasantry, which has shown a remarkable power of resistance in times of scarcity. (iv) Lastly, the Permanent Settlement has avoided the evils associated with temporary settlements, such as the harassment of the cultivator at the time of revision, the expensive machinery required for re-settlement, the tendency of land to deteriorate towards the end of the term of settlement, due to deliberate neglect on the part of the cultivator so as to escape enhancement of assessment, impediments to industry and improvements, and the concentration of arbitrary power in the hands of revenue officials not liable as yet to legislative and judicial control.

(i) The most obvious as well as the most important argument against the Permanent Settlement is that it has frozen the land revenue at a figure which is far below the fair share which the Government ought to receive from the produce of the land, and is substantially less than the share taken in the provinces where there is no Permanent Settlement and where the land is less productive than it is in Bengal. It has deprived the Government of any share in the increment in the value of land due to the increase in population and the extension of cultivation; and it has perpetuated an assessment which has no relation to the productive quality of the land, which varies widely from district to district, and which becomes more and more uneven as time goes on. The advantage of a fixed and stable revenue is secured at too great a cost. The Bengal Land Revenue Commission (1938-40) estimated the annual loss in this generation at anything between Rs. 2 crores and Rs. 8 crores, not to speak of the decline in the purchasing power of the rupee since 1793.<sup>3</sup> The inelasticity of land revenue, which is an important resource of Government in an agricultural country, is a tremendous handicap to the Bengal Government and inhibits state activity in many directions in which it is required. The expectation

<sup>1</sup> For a recent presentation of the arguments in favour of the Permanent Settlement see the Note of Dissent by Sir Bijay Chand Mahtab, Maharajadhiraja Bahadur of Burdwan and Mr B. K. Roy Choudhary, *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 29-34.

<sup>2</sup> The Permanent Settlement, it has been argued, by increasing the zamindar's profits encouraged subinfeudation and brought into existence a body of tenure-holders vastly outnumbering the original zamindars. It thus promoted the prosperity of, if it did not create, that class in Bengal which has had leisure for culture and politics, has provided educated men for the professions and government services and is responsible for all political progress. *Report of the Land Revenue Commission, Bengal*, vol. I, par. 77.

<sup>3</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 73 and 80.

that, as a result of the Permanent Settlement, other sources of state income would grow, has not been realized to anything like the extent hoped for. The community has thus been deprived of its legitimate right to share in the increasing prosperity of the zamindars, which is due not so much to the direct efforts of the landlords themselves as to social factors beyond their control, such as growth of population, improved communications, rises in prices, etc.<sup>1</sup> Moreover, the Permanent Settlement has involved for the Government the loss of revenue from minerals and from fisheries in certain navigable rivers, as these natural resources were not taken into account at the time of the Permanent Settlement, and in consequence they have been exploited for private gain without any co-ordinated plan. It may be added that the discrimination in respect of taxation in favour of land has had the effect of creating a bias in favour of investment in land rather than in industrial enterprises and has contributed to the over-capitalization of rent-receiving as opposed to productive purposes in either agriculture or industry.<sup>2</sup> (ii) The political argument that the Permanent Settlement has secured the loyalty of zamindars has clearly, lost whatever value it once possessed in the past. Besides, the present provincial Governments are anxious to secure the loyalty of the masses rather than that of the big zamindars. (iii) As regards the hope that was entertained about a powerful class of wealthy and benevolent landlords acting as the natural leaders of the ryots and exerting themselves for their uplift, it is generally recognized that this has not been realized. On the contrary, 'while there are many worthy, liberal-minded and enlightened landlords in Bengal—as there are also in other parts of India—the evils of absenteeism, of management of estates by unsympathetic agents, or unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between zamindar and the cultivator in many and various degrees, are at least as marked and as much on the increase there as elsewhere'. The development of subinfeudation, owing to the margin between the fixed land revenue and the economic rent of land, and the growth of a long chain of middlemen, have severed the connexion between the zamindars and ryots and have defeated the intention of Lord Cornwallis to establish a landlord and tenant system in Bengal on the English model. 'The land is nobody's concern . . . The responsibility for agricultural welfare cannot be fixed at any particular link in the chain between the zamindar and the actual cultivator.'<sup>3</sup> The evil has been aggravated by the further process of the fragmentation of proprietary interests in land. (iv) As to the prosperity of Bengal being due to the Permanent Settlement, it is argued that it is due to quite other facts, such as the protection which the tenants enjoy from the operation of special tenancy laws, the comparative

<sup>1</sup> For a discussion of some consequences of the Permanent Settlement in Bengal, see *Report of the Indian Statutory Commission*, pars. 381-2, M. A. Huque, *The Man behind the Plough*, pp. 224-67, and the *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 72-93.

<sup>2</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 80.      <sup>3</sup> *ibid.*, par. 78.

the question of its extension to the areas temporarily settled is unthinkable. As Lord Irwin once said, since Cornwallis's time India's place in commerce and the markets of the world and the growing intricacy of her financial and social problems have brought many new factors into the picture necessitating elasticity of public revenue and expenditure. The Government are being constantly asked to undertake new tasks and improve old ones. But this requires greater and greater command of funds, and it would therefore be impossible for the state to forgo its legitimate share of the increment in the value of land. There is no doubt that the time has now come to revise the system of Permanent Settlement in Bengal and elsewhere, in order to secure fairness in the distribution of the tax burden and elasticity of revenue.<sup>1</sup> If it is objected that this reform would involve the violation of a solemn pledge and contract, it may be replied that, after the lapse of more than a century and a half, the original contract has lost its meaning and ceased to be equitable, and that vested interests must not be allowed to prevail indefinitely over the common good. 'The promise given was a necessity of the past; the word broken is a necessity of the present.' This is one of Machiavelli's maxims expressed with characteristic frankness, but nobody will deny that it has a core of sound practical wisdom, especially when we reflect that 'the past' and 'the present' we are now thinking of are separated by a long and eventful interval of over a century and a half.

The Indian constitution of 1935 did not veto the annulling of the Permanent Settlement, should this have been found necessary on grounds of public policy. It merely prescribed certain constitutional precautions, viz. reservation for the signification of His Majesty's pleasure as directed in the Instruments of Instructions to the Governors and the Governor-General. The new constitution that is in process of formation (1949) is likely to make the annulment even easier.

§32. Land Revenue Commission, Bengal (1938-40).—The Government of Bengal appointed a Commission in November, 1938, presided over by Sir Francis Floud, to examine the existing land revenue system of Bengal with special reference to the Permanent Settlement and to appraise the advantages and disadvantages of the existing system. The Commission submitted their report in March 1940.

The majority of the Commission reached the conclusion that whatever may have been the justification for the Permanent Settlement in 1793, it is no longer suitable to the conditions of the present time; and that the zamindari system has developed so many defects that it has ceased to serve any national interests (see §31 above). In the view of the majority the present system should be replaced by one which will bring the actual cultivators into the position of tenants holding directly under the Government by the state acquiring the interests of all classes of rent-receivers.<sup>2</sup> The Commission argued that nothing substantial is to be gained

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 87-8.

<sup>2</sup> *Report*, vol. I, par. 96.

by substituting a system of temporary settlements for the Permanent Settlement (par. 132). The aim should be to replace the Permanent Settlement and the zamindari system by a ryotwari system under which the Government would be brought into direct relations with the actual cultivators, and would as the sole landlord be responsible for the welfare of the cultivators by initiating various schemes of agricultural improvement (pars. 94-5).

The majority of the Commission recommended that legislation should be introduced to acquire the interests of all rent-receivers down to the actual cultivator of the soil. Compensation should be paid at a flat rate of ten times the net profit of the proprietors and tenure-holders, in cash if possible, otherwise in bonds redeemable after 60 years. They also favoured the acquisition of royalties from mines and fishery rights. The imposition of an agricultural income-tax was recommended as a transitional measure until the scheme of state purchase was effected, in preference to an agricultural or other cess. The tax should be applied solely for the improvement of agriculture.<sup>1</sup>

The Report did not command the unanimous support of the Commission's members, six of whom signed four minutes of dissent. In the view of the dissenting minority, state acquisition would not only be a hazardous experiment financially, but would be undesirable for social and economic reasons. They held that the economic difficulties of the cultivators in Bengal are unconnected with the land revenue system. The chief causes of those difficulties are the increasing pressure of population, the Hindu and Muslim laws of inheritance which have resulted in the subdivision and fragmentation of holdings, the absence of any occupation for the cultivators during a great part of the year, and the fall in agricultural prices. Whatever may be the defects of the existing system, it was contended by the minority that it has resulted in a state of affairs where the occupancy ryot in Bengal pays a lower rate of rent than in any other province, and has been given greater protection by tenancy legislation than the tenants in any other province. In these circumstances, the cultivators will not benefit by state acquisition, and such a scheme of state acquisition would lead to an undesirable social upheaval in Bengal by striking at the very roots of the middle class with its vested interests in land. The scale of compensation is meagre and its basis unsatisfactory. There is also danger of rent reduction under pressure from the rural electorate if the Government become the sole landlord (pars. 89-94).

The majority of the Commission did not dispute the part played by the factors referred to by the minority in undermining the prosperity of Bengal agriculture. But they insisted that the zamindari system has been an important contributory factor and could be more easily dealt with

<sup>1</sup> On 27 April 1945, the Bengal Legislative Assembly passed the Bengal Agricultural Income-Tax Bill which provides for a tax on agricultural incomes exceeding Rs. 3,500 annually.

than those mentioned by the minority, which are rooted in ancient custom or governed by world trends beyond India's control. The majority recognized that their proposal of acquisition by the state involves a fundamental change in the rural economy of Bengal, vitally affecting the whole social and economic structure of the province, that it could only be carried out gradually over a term of years and that it would be a most formidable administrative undertaking, which would tax to the full all the resources of the Government. They also considered the possible social upheaval. Nevertheless they held the view that, in the interest of the province as a whole, the present land tenure system cannot remain unaltered, and its defects can only be remedied if the state comes into direct relation with the actual cultivators (par. 138).<sup>1</sup>

§33. *Term of settlement.*—There is considerable diversity of opinion as to whether the term of settlement should be as short or as long as possible. There are some who advocate as brief a period as 10 years, while others would like to see it extended to no less than 99 years. The argument in favour of a short period is that it enables the state and the community to benefit by absorbing their proper share of any unearned increment which general progress may have brought into existence—an argument particularly applicable to those tracts where the economic resources are fast developing—and that, on the other hand, in the event of declining rents and prices, it makes possible a lowering of the assessment and speedy relief to agriculturists. It has also been urged that short-term settlements excite less discontent by making the people familiar with more frequent but smaller increases than the large enhancements that are likely to come at the close of too long an interval. On the other side it is pointed out that long terms of settlement are less disturbing to the revenue payer and have the advantage of increasing the resources of the people and enabling them to make improvements without fear of having to forgo the benefit from them on account of higher assessment. Assuming a well-conceived and scientific system of assessment, the period of settlement would depend on a balance of these opposing considerations, and it is impossible to say off-hand with precision that a particular period and no other is the ideal. The general feeling in the country is in favour of a long term, and an increase in the period of revision is popularly regarded as a step in advance. It is noteworthy that the period of settlement, at least in the case of one province, the Punjab, was extended to 40 years under the Punjab Land Revenue Amendment Act

<sup>1</sup>The Bengal Government decided, in March, 1945, to implement the recommendations of the Floud Commission. A beginning was made with the District of Faridpur where settlement operations were in progress. An extension of the scheme to all the districts was expected to increase the revenue of the province by about Rs. 12 crores per annum.

The Congress is committed to a policy of eliminating all intermediaries between the cultivator and the state and the Working Committee (October, 1946) passed a resolution calling upon all Congress Governments in the provinces to submit proposals for the abolition of the zamindaris.

(1929). The Bombay Land Revenue Assessment Committee, pleading for the period of 30 years, observed: 'Thirty years is a generation in the life of the agriculturist. If he knows at the beginning of this period that his assessment is subject to an enhancement at the hands of Government, he has ample time to assimilate his expenditure and his mode of living generally to the ratio of assessment he is called upon to pay, while if in the course of the settlement period the value of his land increases, prices show a steady rise, and facilities of markets and communications improve, his economic condition is such that he can prepare himself for a reasonable enhancement of rent at the succeeding revision settlement.' Mr Anderson objected to such a long period as 30 years because, *inter alia*, combined with the 33 per cent<sup>1</sup> enhancement rule, it prevents steps being taken to remedy one of the grave defects of the Bombay system, namely, it does not take a uniform share of the profits of cultivation everywhere alike. Profits or rents increase faster than the land revenue can increase at the maximum rate of 33 per cent every 30 years.<sup>2</sup>

§34. Principles of assessment.—As we have already seen in our survey of the different settlements in India, there is no single system of clearly recognized and consistently applied maxims of assessment of land. The basic principles differ from province to province, and they are further modified by the introduction of a number of miscellaneous factors, and a large amount of discretion is allowed to the Settlement Officer. While, in the United Provinces, the Punjab and the Central Provinces, the theoretical basis of assessment is the economic rent, and in Madras the net produce, Bombay until lately did not even profess to have any definite principles of assessment and followed a frankly empirical system depending upon general economic considerations as they impressed the Settlement Officer.

§35. Rental value as a basis of assessment.—The practice followed in recent years in Bombay,<sup>3</sup> viz. the use of rental value as the principal basis of assessment, raises issues which are of more than purely local interest. The reliance on rental statistics for affording an indication of profits of agriculture has been advocated on the ground that the method is more definite and precise and that it enables the operations of the Settlement Officer to be checked more effectively than any of the other alternative methods depending upon crop experiments, prices, development of communications, etc. But the Bardoli imbroglio (1929) proved that rental statistics, unless used with great caution, are apt to lead to serious error and intolerable over-assessment. Actual rents may be very much higher than true rental values for a variety of reasons. There may be excessive competition among tenants; the landlord may be the creditor and the tenant the debtor, and the latter may be compelled to agree to an impossible

<sup>1</sup> Reduced to 25 per cent by the *Bombay Land Revenue Code (Amendment) Act* (1939).

<sup>2</sup> *Facts and Fallacies of the Bombay Land Revenue System*, p. 109.

<sup>3</sup> See however §27 above and §44 below.



rent; the rent may represent interest on money lent and may have no relation to the productivity of the land; figures of rent may relate to a period of boom and therefore be unreliable as guides for normal times; the rent agreed to may be on the basis of what the tenant can pay in a prosperous year and subject to substantial reductions in bad years; it may be paid largely out of income earned not from the land but from other sources; the proportion of lands leased for cash rents is much higher in the case of industrial crops like cotton than in the case of food-grains and will naturally bulk largely in the rental statistics, and although not typical, they are apt to be treated as such; occasionally fancy rents may be paid by a cultivator for land which has practically nothing else to recommend it except that it is adjacent to his land; only a very small fraction of the total amount of land in the tract under settlement may be leased for cash rents, and although rental values may, to some extent, be inferred from sale transactions (provided these are normal and not affected by any disturbing factors), the direct and indirect data thus collected may nevertheless be too inadequate for safe generalization.<sup>1</sup> In the words of the Bardoli Committee, 'a very wide margin must always be allowed for the eccentricities of the raw material', and the rental figures need to be subjected to a close scrutiny before being used for drawing inferences on which assessment is to be based. It may be conceded that rental data, if collected with proper care, tabulated in a manner which brings out their real significance and used with due reference to the meanings of the underlying transactions, afford almost the only positive evidence that can be used with confidence in revising the assessment. Every effort should therefore be made to collect trustworthy rent and sale statistics and compile them carefully.<sup>2</sup> But the task of judging the suitability of any given body of statistical and other information for the purpose of revising assessments must be entrusted not to the Settlement Officer or other Government officers but to a competent advisory committee. Further, even where the statistics of rental value appear to be fairly satisfactory in quantity as well as in quality, their indications should be tested with reference to other factors such as communications, market prices, economic conditions, crop experiments, etc. on the lines recommended by the Bombay Land Revenue Assessment Committee. It will be in very rare cases that such corroboration of rental data can safely be dispensed with.

We therefore welcome the clarification of the position regarding rental value in relation to assessment and the emphasis laid on other factors than rental value by the amendment of the Bombay Land Revenue Code effected in 1939 as also the opportunity given to any person aggrieved by the report of the Settlement Officer to raise objections to it.

§36. Ricardian theory in relation to the land revenue in India.—As we have seen above, the principles governing assessment vary from province to

<sup>1</sup> For a fuller discussion of these points, see *Bardoli Report*, pars. 29–38; also Gadgil, *Bombay Land Revenue System*.

<sup>2</sup> See *Bardoli Report*, par. 38.

province so far as their formal statement is concerned. The general claim of the Government, however, is that, in the net result, the land revenue forms everywhere in 'British' India a certain moderate proportion of the economic rent. This is clearly not the case if we take into account the large number of uneconomic holdings, the existence of which is not disputed by the Government. Here, as Wadia and Joshi remark : 'The land tax is not the appropriation of the soil, it is the appropriation of the bare minimum of subsistence left to the cultivator.'<sup>1</sup> In other cases, if in actual practice no more than the pure economic rent is taken, this could come about only by accident and not by design, since, in calculating the so-called surplus, not all the elements entering into the cost of production are deducted from the gross value. For example, the labour of the cultivating proprietor and his family is not allowed for in every case. Actual rental values on which the revenue rates are based, for example in northern India, are apt to be very much higher than the true economic rent in a country where agriculture is practically the sole occupation of the people and where there is no competition as between a variety of occupations for the available labour and capital. The cultivator sticks to the land although he may have to pinch and starve in order to pay an excessively heavy rent. 'With alternative occupations in the shape of industry and handicrafts, there can be no doubt that a large number of holdings cultivated under the pressure of necessity today would be thrown out of cultivation.'<sup>2</sup> Rental values are also unreliable as indices of economic rent because the land hunger due to pure economic necessity is further strengthened by the traditional sentiment in favour of investment in land, a sentiment which can weaken only when there arise a variety of alternative openings for the investment of capital through the development of industry. The economic rent in the Ricardian sense bears no certain and definable relation to the assessment, though we are not prepared to say that in every case the land revenue impinges on income that is 'earned'. Nor can we accept the contention that merely because land revenue is the first charge on the produce of the soil, it cannot be part of economic rent,<sup>3</sup> which, according to the Ricardian theory, is the last charge on the produce. When we say that economic rent is the last charge, we are not thinking of the sequence in time of the different payments but the sequence in the economic analysis of rent. Just as wages, although they ultimately come out of the produce due to labour, are yet paid in advance, similarly the rent charge may be realized before the surplus accrues, although in anticipation of its accruing. The true line of criticism would be to point out that assessment is sometimes charged and exacted when there is no chance of a surplus, and that it is not refunded or excused when the expectation of a surplus, however just, is not actually realized. The system of suspension and remission of revenue cannot be guaranteed to operate, and does not in practice in-

<sup>1</sup> *Wealth of India*, p. 281.

<sup>2</sup> *ibid.*

<sup>3</sup> *ibid.*

variably operate, so that the assessment should in no case trench upon any portion of the gross value which is not the true economic rent or unearned income.

§37. A new basis of assessment.—The Taxation Enquiry Committee recommended that a uniform basis of annual value should be adopted in every province, and that the function of the Settlement Officer should be confined to the determination of the annual value under such conditions as may be required by the special circumstances of each province. By annual value they meant 'the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family, and the return for enterprise'. In the case of rents controlled by tenancy laws, or by custom having the force of law, or where the rent is fixed by the Settlement Officer, it was recommended that such rent should be taken to be the annual value. This would put an end to the vagueness of the principles of assessment prevalent at present. Annual value, as we understand it, is not the same thing as actual competitive rental value which may be either too high—for example, if the competition among the tenants is excessive owing to absence of other occupations and the tradition and force of sentiment in favour of agriculture—or in rare cases it may be too low where, for example, tenants and landlords conspire and deliberately depress rents in order to escape their proper share of the burden of assessment. The basis of annual value is also more scientific, inasmuch as it allows for the labour of the cultivator and his family and also for return for enterprise.

§38. Rate of assessment: a recommendation.—As regards the proportion of the annual value to be taken, in imitation of the example of other countries, the Taxation Enquiry Committee recommended the adoption of a comparatively low standard rate which should not exceed 25 per cent of the annual value. As there would be difficulties about the immediate adoption of this recommendation owing to the absence of definite information as to the percentage of annual value actually taken in the various provinces, they suggested a preliminary expert inquiry to ascertain the rate at present exacted, before a common rate for each province be fixed by its legislature.

In addition to the standard rate, taxation for local purposes by local bodies was also recommended by the Committee, and it was further suggested that the maximum for the ordinary local rates should be in the neighbourhood of 25 per cent of the land revenue. Having regard to the fact that the local bodies would be composed largely of agriculturists and landlords, and the fact that the proceeds of the local rates would be spent on matters connected with improvements in the locality itself, it is anticipated that the sacrifice would be less reluctantly made than if it were imposed in the form of an enhancement of land revenue utilized for general purposes by the Government. The system of local rates super-added to a flat standard rate on land has been found to work satisfactorily in most European countries where it is in vogue.

§39. What should be the limits of enhancement?—In order to prevent too sharp an enhancement of the assessment, some further limit would seem to be needed. And we approve of the recommendation of the Bombay Land Revenue Assessment Committee to the effect that the limit of enhancement should be a general all-round limit of 25 per cent without distinction between groups, villages or holdings as at present, provided that the talukas in question have already undergone a second revision.

§40. Application of principles of taxation to land revenue.<sup>1</sup>—(i) The first canon of taxation, namely, that of certainty, may be said to be satisfied, land revenue being fixed for the period of the settlement. The cultivator knows exactly what he has to pay, although in so far as the basis of assessment is still vague, there is an element of avoidable uncertainty at the time of the revision of assessment. The introduction of a uniform basis of settlement as suggested above will largely remove this source of uncertainty.

(ii) The next canon is that of convenience. In order to satisfy this, the land revenue is collected, as already shown, in instalments suitable to the cultivator. There is, however, a certain amount of sacrifice of the principle of convenience to that of certainty, because the settlements are based on averages, the actual assessment fixed representing an average of what may be fairly demanded in good and bad years taken together. The assumption is that the agriculturist would save up during years of good harvest in order to meet the deficiency in bad years. This assumption, however, is not true to facts. Consequently, the average assessment is felt to be too rigid and oppressive in years of scarcity. The system of suspension and remission of revenue, as we have already remarked, is not worked with sufficient elasticity, and according to the Taxation Enquiry Committee, the inelasticity of the land revenue system has driven a large number of people to the money-lender during bad seasons. Another source of inconvenience, it may be said, arises from the long term of the settlement. The cultivator adjusts his standard of living on the basis of the land revenue he has to pay during the currency of a settlement, and if the assessment is appreciably enhanced at the next settlement, he finds it difficult immediately to adjust his family budget accordingly, though the long-term settlement is granted on the assumption that he would get enough time to prepare himself for a possible enhancement. An attempt is made to mitigate the hardship arising from this source by the progressive and graduated imposition of large enhancements, and also by limiting their extent.<sup>2</sup> The disturbance due to the process of re-settlement has been, as previously stated, reduced to a minimum by the gradual perfection of the system of land records, though in some cases this process may take years of meticulous inquiry to be completed.

(iii) As to the canon of economy, the heavy expenses on the revenue establishment that is maintained cannot be debited entirely to the work

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 86–9.

<sup>2</sup> See *Land Revenue Policy of the Government of India*, pp. 38–40.

of assessment and collection of land revenue, much miscellaneous work of an important character outside the purview of land revenue proper being still discharged by the revenue agency.

(iv) As to the canon of ability, the official claim is that it is being increasingly satisfied on account of the progressive reduction in the share of the state. We have already given the figures in support of this contention. One of the results of the discussion about land revenue policy initiated by R. C. Dutt was the conversion of the standard rates into maximum rates.<sup>1</sup> The Taxation Enquiry Committee gave figures showing how the tendency for the state's share to diminish continued to operate from 1903 to 1924. During this period, while prices rose by 117 per cent, the land revenue rose by 20 per cent.<sup>2</sup> Besides, part of this rise in revenue must have been due to the increase of about 7 per cent in the area sown.

As regards the incidence of land revenue, owing to the variations in the systems followed between province and province and even between one district and another, it is impossible to obtain any general idea. Five possible criteria may be applied, namely, (i) the ratio borne by the land revenue to the population; (ii) the ratio borne by the land revenue to the occupied area, that is the average assessment per acre; (iii) a comparison of the assessment per soil unit; (iv) the ratio borne by the assessment to gross or net produce; and (v) the ratio borne by the assessment to rents or annual value. The Taxation Enquiry Committee accepted the last as the least unsatisfactory method, but, even in this respect, owing to the absence of full and reliable data, they were unable to arrive at any definite conclusion regarding the actual burden of assessment in the different provinces.

§41. Principle of formal justice.—This principle is violated under the present system of land revenue because, in the first place, there are inter-provincial, and, as we have remarked, even inter-district disparities, and in the second place, incomes from land are differentiated for purposes of taxation from other sources.

(i) *Inter-provincial disparities*.—Taking the first point, the permanently-settled areas are at present obviously much more lightly taxed than those under temporary settlement. As regards the latter, in 11 districts recently settled in the Punjab, the percentage of land revenue to net rental varies from 19 to 36 per cent, with an average of 25. In the

<sup>1</sup> R. C. Dutt suggested that the heaviness of land revenue assessment was one of the most important causes of the famines which visited the country during the last century, especially towards its close. As to the connexion between land revenue and famines, our views are analogous to those advanced in relation to the similar controversy regarding the connexion between land revenue and indebtedness. We hold that land revenue can only be regarded as a minor cause of famines, as it is of rural indebtedness, and for similar reasons.

<sup>2</sup> The heavy slump in agricultural prices during the depression years 1929-33, however, rudely disturbed the tendency referred to by the Taxation Enquiry Committee.

United Provinces, it varies from 20 to 42 per cent, with an average of 27. In the ryotwari provinces, in the case of Bombay, the percentage of assessment to rent varies from 17 to 50 in different parts of the province. In Berar, in the case of two cotton talukas recently settled, the average is 10 per cent. In Madras, it is apparently in the neighbourhood of 17 per cent in half of the districts.<sup>1</sup> These figures are not absolutely accurate, but they are sufficiently reliable as indications of the existence of very considerable inequalities in the burden of assessment in the various provinces. The dictates of formal justice would be satisfied if the recommendation of the Taxation Enquiry Committee with regard to the adoption of a uniform standard of 25 per cent of the annual value as the share of the state were carried into practice.

(ii) *Land revenue compared with income-tax.*—Coming to the second point, a comparison between the land tax and income-tax discloses three striking differences as regards the manner of treatment of the two kinds of income. The first is that, in the case of land, there is no tax-free minimum<sup>2</sup> as there is in the case of income-tax, and the second is that the percentage of the tax to the income is very much higher in the case of land revenue. The third difference is absence of progression. There are two ways of assimilating the two classes of taxes; one way is to make the income-tax conform in all particulars to the land revenue, and the other is to change the land revenue so that it resembles income-tax in every respect. The first course is not feasible, and would be a retrograde step because it would entail the abandonment of the sound principles of the exemption limit, and of graduation. Let us therefore examine the implications and the practicability of the second course and consider, in the first place, the effect of exempting incomes from land below the income-tax free limit of Rs. 3,000. This must at once be rejected as entirely visionary and impracticable at the present moment, because it would touch the financial solvency of the state; a similar conclusion will be forced upon us as regards the second difference noted above, and the principle of formal justice will have to be sacrificed to the principle of productivity or practical expediency. Even if the recommendation of the Taxation Enquiry Committee favouring standardization of the land revenue at 25 per cent of the annual value, with additions in the shape of local rates, is given effect to, the percentage will be higher than in the case of non-agricultural incomes (if we exclude from this category a small number of very high incomes which are liable to pay a very heavy percentage by way of income-tax and super-tax). The principle of progression may, however, be applied to land revenue, as in the more ad-

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 94.

<sup>2</sup> The fact that in theory the land revenue is taken only from unearned income can scarcely be regarded as compensating for the absence of a tax-free minimum. The range of agricultural incomes being generally very small, especially in ryotwari areas, most of them would escape taxation altogether if land revenue were fixed on income-tax principles as they stand at present.

vanced European countries and Japan, where agricultural incomes are assessed to the income-tax<sup>1</sup> or are liable to death duties.<sup>2</sup>

On the whole therefore a complete assimilation of land revenue to income-tax is not a matter of immediate practical politics, and for some time at any rate, the former will have to be treated for purposes of taxation as a thing *per se*. This, however, does not mean that it should for ever be allowed to stand outside the normal process of taxation. Land revenue as well as income-tax, which is by no means perfect as it stands at present, must be gradually modified till they both conform to the same principles of taxation. A sound tax must neither (i) remove or imperil any instrument of, or incentive to essential or useful processes of production, nor (ii) remove or impair any essential or useful element of consumption.<sup>3</sup> Obedience to these principles implies that only unearned surpluses, whether they arise from land or other sources, should be taxed, or, if both unearned and earned incomes have to be taxed, the latter should be taxed at a much lower rate than the former. The whole of the unearned income may theoretically be absorbed by the state, although only a certain percentage may be actually taken, so as to err on the side of safety and to allow for practical difficulties in the way of accurate calculations of the unearned income. The present system of income-tax is faulty because it taxes earned as well as unearned incomes at the same rate. The land tax is faulty in that it taxes the smallest agricultural incomes from holdings which are admittedly uneconomic. Again, land revenue is paid on all lands whether income is actually derived from them or not. Another difference between land revenue and income-tax is that the latter is levied on each individual on the basis of the income returned by him, whereas in the case of land revenue each single plot is not assessed separately and, owing to the method of average which must necessarily be employed, some plots may be over-assessed and others under-assessed. Further, in theory the land revenue is supposed to be a portion of a surplus, but obviously in the case of uneconomic holdings there is no surplus, and yet they are assessed to the land tax. This raises the question how far it is practicable to exempt from land revenue holdings which are below a certain size. Here again, we are up against the difficulty that an immediate exemption of all uneconomic holdings would involve the Government in great financial embarrassment. There is also another consideration, namely, that people have been used to the land tax in this form from time immemorial, and it is acquiesced in and paid without demur, and thus the injustice is not vividly felt by the taxpayer.

<sup>1</sup> The proposal of Sir Walter Layton, Financial Assessor to the Simon Commission, to levy an income-tax on agricultural incomes, which are at present exempt from it is discussed in vol. II, ch. xii, §11.

<sup>2</sup> The Taxation Enquiry Committee, accepting the view of Dr Gregory, considered that the land revenue is essentially a tax on things and not persons and that therefore it is not susceptible to the direct application of the doctrine of progression (*Report*, par. 89).

<sup>3</sup> See J. A. Hobson, *Taxation in the New State*, p. 10.

At the same time, there is no doubt that if we wish to rationalize our system of taxation, uneconomic holdings will have to be exempted sooner or later,<sup>1</sup> and also earned incomes from land below a certain minimum identical with that which, under an improved system, may be deemed suitable for non-agricultural incomes.

A not very forcible objection against the exemption of uneconomic holdings is that it would encourage subdivision. The proper remedy for dealing with the evil of subdivision is to do so directly by suitable legislation and not indirectly by a manipulation of the land revenue system.

§42. Legislative control.—The principle of legislative control of matters connected with land revenue is not novel in India. There had been already, in some provinces like Bombay, an attempt on the part of the legislature to regulate the administration of land revenue by special statute such as the Bombay Land Revenue Code (1879). But the situation was unsatisfactory inasmuch as in some provinces there was no legislative control whatever, whereas in others, where it did exist, it was of the most meagre description, and it was necessary to extend it in order to redeem the land revenue system from the charge of executive arbitrariness which was made against it.<sup>2</sup> In this connexion, the following words of the Joint Parliamentary Committee (1919) are worth quoting: 'The Committee are impressed by the objections raised by many witnesses to the manner in which certain classes of taxation can be laid upon the people of India by executive action, without in some cases any statutory limitation of the rates, and in other cases, any adequate prescription by statute of the methods of assessment. They consider that the imposition of new burdens should be gradually brought more within the purview of the legislature. And in particular, they advise that the process of revising the land revenue assessment ought to be brought under closer regulation by statute. The Committee are of opinion that the time has come to embody in the law the main principles by which the land revenue is determined, the method of valuation, the pitch of assessment, the periods of revision, the graduation of enhancements and the other chief processes which touch the well-being of the revenue payer.' The Committee thought that this reform was a necessary preliminary before the subject was transferred to Ministers after securing adequate representation to the rural classes on the Legislative Councils.

§43. Progress of land revenue legislation.—The above recommendation provoked much discussion in the provincial legislatures, which have either adopted or have been considering measures for closer regulation by law of (i) the principles of settlement and the determination of the standard rate of assessment; (ii) the limitation on enhancement at revision settle-

<sup>1</sup> For an ingenious, though fallacious, argument against the exemption of uneconomic holdings, see Anderson, *op. cit.*, pp. 14-16.

<sup>2</sup> See Government of India Dispatch on the Constitutional Reforms of 1919, Sir Sankaran Nair's Minute of Dissent.



ment ; and (iii) the period of settlement. In 1928-9, bills embodying the principles of land revenue assessment in a statute were passed by the Legislative Councils of the Punjab, the United Provinces and the Central Provinces.<sup>1</sup> The Punjab Land Revenue Amendment Act (1929) fixes the share of the state at one-fourth of the net assets, and extends the period of settlement to 40 years. Legislation has not been considered necessary in Bengal, Bihar, and Orissa, as large territories in these provinces are under Permanent Settlement. In Madras and Assam<sup>2</sup> attempts to secure legislation regulating the assessment of land revenue have not proved successful. In Bombay, the Land Revenue Assessment Committee was appointed in June 1924, in accordance with a resolution passed by the Legislative Council. The non-official members of the Committee strongly recommended that a Standing Advisory Committee of the Legislative Council should be set up to examine all revision settlement proposals and that, if the recommendations of the Committee were not accepted by the Government, the proposals should not be put into force without express sanction of the Legislative Council. Such a committee would be highly desirable in view of the natural bias of the executive towards stressing the financial point of view, to the prejudice of the revenue payer.<sup>3</sup> The Bombay Government, who were opposed to this proposal, later modified their attitude of uncompromising resistance to any form of non-official control and gave an assurance in connexion with the proposed amendment of the Bombay Land Revenue Code (see §44 below), that an opportunity would be given, not only to the landholders concerned but also to public bodies and associations, to discuss the Settlement Officer's proposals.

The advent of Provincial Autonomy in April 1937 and the acceptance of office by Congress Ministries gave a further impetus towards land revenue reform in most provinces, and widespread changes in respect of the system of land revenue assessment are in the process of being made everywhere.

§44. The Bombay Land Revenue Code (Amendment) Act (1939).—The Congress Government of Bombay introduced in April 1939 in the Legislative Assembly a bill to amend the Land Revenue Code in order to give effect to the recommendations of the Land Revenue Assessment Committee, with certain modifications. The bill, which has since become law and come into force, seeks to regulate land revenue assessment in the province by

<sup>1</sup> See *India in 1928-9*, p. 321.

<sup>2</sup> In Assam a bill was passed in September 1930 fixing the maximum pitch of assessment at 10 per cent of the value of the gross produce as against the 12½ per cent proposed by the Government. The latter figure had been agreed upon as the result of a compromise with the representatives of all the parties in the Council. The bill was returned by the Governor for reconsideration by the Council, which refused to accept the higher limit. The Governor therefore withheld his assent to the bill. See *India in 1930-1*, p. 577.

<sup>3</sup> See Government Resolution of 1927 on the *Report of the Land Revenue Assessment Committee, Bombay* (1926), and the Report by the official members of the Committee.

statute. Under the Bombay Land Revenue Code (Amendment) Act of 1939 the legislature has the determining voice in orders that might be passed in regard to settlements. Under the Act the term of settlement is not to exceed 30 years except when in the opinion of the Government a revision settlement is inexpedient. The standard rate of assessment with reference to any particular class of land in each group of homogeneous lands is to be so fixed that the aggregate assessment on occupied lands in any group shall not exceed 35 per cent of the amount of rental values of such lands for a period of five years immediately preceding the year in which settlement is directed.<sup>1</sup> Other fundamental matters connected with the process of settlement, such as the factors which are to be considered in forming groups, exemption of the increase in the value of land due to private improvements from increased assessment, the mode of assessment and the limits of enhancement, are also regulated by the new Act.<sup>2</sup> Provision has been made for the publication of the Settlement Report in each village and inviting objections from any person as also for referring the Report to the Revenue Tribunal constituted under the Bombay Revenue Tribunal Act, 1939, on application from any person aggrieved by the report. Before the provincial Government issues orders on the Settlement Report, it has to be placed—along with objections received, and the opinion of the Revenue Tribunal on a reference, if any—on the table of each Chamber of the provincial legislature. The new Act enables the Government to adjust the assessment in accordance with the fall or rise in prices of agricultural products in suitable cases.<sup>3</sup>

<sup>1</sup> For further particulars see §27 above.

<sup>2</sup> See also §27 above.

<sup>3</sup> See *Bombay Government Gazette*, 16 February 1939, Act No. XII of 1939; also §27 above.

## CHAPTER XIII

### *INDUSTRIES : A GENERAL SURVEY*

§1. Industrial history of India during recent times.—In this chapter we propose to take a general survey of the industrial position of India. In Volume II we shall deal with more specific problems such as protectionism, large-scale industries and cottage industries. We have already traced the industrial history of India up to about the end of the nineteenth century.<sup>1</sup> And we have seen how she was, roughly till the beginning of the nineteenth century, both a manufacturing and an agricultural country, how her industries had attained a high state of perfection judged by contemporary standards, but how they began to languish from the end of the eighteenth century as a result of several unfavourable influences. After the eighties of the last century, and more particularly from the beginning of the present century, the backwardness of India in industrial matters began to attract the notice of patriots and economists such as Dadabhai Naoroji and Ranade, and it was held responsible for the recurrent famines from which the country suffered, and the grinding poverty of the masses of which the famines were a symptom. The Famine Commission of 1880 had hit the right nail on the head in pointing out that one of the main reasons for the recurrence of famine in India was the absence of diversity of industries, and insisted upon this being remedied. A similar diagnosis of the situation was presented by the Famine Commission of 1901 and an identical remedy proposed. The opinion began to gain ground that nature had not destined India to remain for ever dependent on other countries for manufactured goods. Even the few industries that happened to have struck root in the country without the assistance of the Government owed much to foreign capital and enterprise.

This was a position which could hardly be regarded as satisfactory from the national point of view. The feverish activity of the Japanese Government, which had brought their country into the forefront of industrial nations within a marvellously short period, stood in painful contrast with the apathetic attitude of the Government in this country. The cotton excise duties imposed towards the close of the last century under pressure from Lancashire lent colour to the suspicion that the Government were worse than merely indifferent to industrial development in India. In these circumstances, it is not surprising that the economic discontent due to the poverty of the masses and the lack of industrial outlets to educated middle-class youths began to assume a political complexion. The institution of the Indian Industrial Conference in 1905 in association with the Indian National Congress was the first definite sign of the

<sup>1</sup> *Ante*, ch. v.

alliance between economic and political discontent—an alliance which was immeasurably strengthened in the agitation for securing the annulment of the partition of Bengal. 'The swadeshi movement was the positive and the boycott the negative expression of the same purpose.'<sup>1</sup> A great wave of industrial enthusiasm overran the whole country. Numerous factories for the manufacture of textiles, hosiery, pencils, cutlery, matches, glass, etc. were started, but most of them came to grief for lack of practical training and even more owing to want of business experience, and lastly, because the state did not so much as raise its little finger to prevent their collapse. The policy of differential railway rates was allowed to continue, to the prejudice of Indian manufactures. Competition from abroad was permitted to run its course unhindered by protective tariffs or other means. This attitude was not entirely due to the *laissez-faire* doctrines which had more or less consistently been the official creed. It was also caused by the association of the boycott with the swadeshi movement, which inevitably antagonized the Government. The failure, to whatever causes it may have been due, undoubtedly emphasized the lesson that, in this country, there was no chance for industries without the strong and vigorous backing of the Government, at least in the initial stages. Thus in the period before the war of 1914–18 Indian industries were very poorly developed. Practically the only large organized industries on a stable footing were the cotton mill industry of western India, the jute industry of Bengal and the coal mining industry of Bihar, Orissa and Bengal. It is necessary, however, to take note of one highly important step in industrial advance under Indian enterprise, namely the inauguration of the Tata Iron and Steel Company at Sakchi (Jamshedpur), which was founded in 1907 and commenced operations in 1912. Other miscellaneous industries such as cotton gins and presses, jute presses, paper mills, rice mills, sugar factories, petroleum refineries, leather works, engineering workshops, etc. had also come into existence, but they were not of sufficient magnitude or importance to deserve more than a passing reference here.

§2. Survey of the policy of the state in relation to industrial development.<sup>2</sup>—We may, at this point, pause to take a brief review of the various changes which state policy has undergone in relation to industries in India. It has already been noted how the East India Company's commercial instincts made it at first favour the improvement of those industries on which its export trade depended. But this policy had to be abandoned owing to the pressure of vested interests in England, and India came to be looked upon primarily as a valuable source of the raw materials necessary for developing the manufactures of England. This

<sup>1</sup> See *Montagu-Chelmsford Report*, par. 335.

<sup>2</sup> For a fuller treatment of the subject, especially relating to the period of 1914–22, see A. G. Clow, *The State and Industry*, chs. i–iii, *State Action in Respect of Industries, 1928–35*, Buchanan, *The Development of Capitalist Enterprise in India*, pp. 460–75, and G. E. Hubbard, *Eastern Industrialization and its effect on the West*, pp. 260–5.

attitude, which was a legacy of the old colonial policy, survived for some time after the Company had ceased to be a trading body, and even after its extinction and replacement by the direct rule of the Crown in 1858. What was at first dictated by self-interest, came later to be fortified by the dominance of the *laissez-faire* theory both in England and in India. The interest of the state in industrial development did show itself occasionally, but in a very fitful and haphazard manner, and it was ridiculously inadequate to the needs of the situation. For a long time it did not go beyond a very imperfect provision of technical and industrial education and the collection and dissemination of commercial and industrial information. A few industrial exhibitions were held and a certain number of provincial monographs on Indian industries were published, but so far as there was any activity on the part of the state, it was rather due to the energy of a few exceptionally far-sighted individual officers than to any considered and comprehensive policy laid down by the Government. A change, however, was gradually coming over the policy of the Government, and the first sign of it was the creation in 1905 of a separate Imperial Department of Commerce and Industries at the instance of Lord Curzon. In the meanwhile, individual provincial Governments, like those of the United Provinces and Madras, had begun to put forward programmes of industrial policy requiring close co-operation, help and guidance from the Government. For example, the Madras Government, encouraged by their successful experiment in the aluminium industry had committed themselves to an increasingly active participation in industrial development, which had resulted in considerable impetus being given to handloom weaving, the introduction of the chrome process of manufacturing leather, etc. A special official was appointed to supervise and stimulate technical and industrial education. But all these efforts which had already provoked the interested opposition of the European commercial community in India, received a sudden check by the 1910 Dispatch of Lord Morley, then Secretary of State, who, true to his *laissez-faire* creed, deprecated direct attempts on the part of the Government to start new industries, even for the sake of experiment and demonstration and with the object of eventually transferring them to private enterprise. 'The policy, which he was prepared to sanction, was that state funds might be expended upon familiarizing the people with such improvements in the methods of production as modern science and the practice of European countries could suggest. Further than this the state should not go, and it must be left to private enterprise to demonstrate that these improvements could be adopted with commercial advantage.'<sup>1</sup> This dictum of Lord Morley damped the enthusiasm of the Madras Government who, however, later on proceeded to better their instruction and retraced their steps farther backwards than was necessary.<sup>2</sup> Lord Crewe, the successor of Lord Morley, pointed out that the Madras Government had placed too limited a construction upon

<sup>1</sup> See *Industrial Commission Report*, par. 108.

<sup>2</sup> Pandit Madan Mohan Malaviya did not wholly subscribe to the view expressed

valuable, they would have been vastly greater if the country had been industrially developed. 'Nowadays, the products of an industrially developed community coincide so nearly in kind, though not in quantity, with the catalogue of munitions of war that the development of India's natural resources becomes a matter of almost military necessity.'<sup>1</sup> All these considerations resulted in the appointment of the Industrial Commission in May 1916 to examine the whole question of industrial development in India, and to indicate new openings for the profitable employment of Indian capital in commerce and industry and the manner in which the Government could usefully give direct encouragement to industrial enterprise. The Report of this Commission (1918) particularly stressed the importance of the active assistance of the Government in furthering the industrial development of the country with the aim of making India more self-sufficient. To this end, they considered it necessary that the Government should be provided with adequate administrative equipment and should command reliable expert advice on scientific and technical matters. One of their main recommendations therefore was in favour of the creation of special industrial and chemical services and the establishment of provincial Boards of Industries.

§4. The Indian Munitions Board.—In the meanwhile, the Indian Munitions Board had been established by the Government of India in February 1917, 'to control and develop Indian resources, with special reference to the needs created by the war, to limit and co-ordinate demands for articles not manufactured and produced in India and to apply the manufacturing resources of India to war purposes with the special object of reducing demands on shipping'. Although, under the terms of reference, the Board was required to concentrate its energy on its primary object of assisting the prosecution of the war, especially in the eastern theatres, it was able, within the limits set, to foster the development of indigenous industries in various ways, such as (i) direct purchase of articles and materials in India; (ii) the diversion, by means of the priority system and control over Home indents, of all orders from the United Kingdom and elsewhere to manufacturers in India; (iii) assistance to individuals and firms who desired to import plant or engage experts or skilled labour from abroad; and (iv) the dissemination of information and expert advice to persons prepared to establish new industries in India. In this manner, considerable stimulus was given to various industries, notably cotton, jute, iron and steel, and leather as also a number of others, such as engineering industries, manufacture of chemicals, mineral acids, oils, paper, glass, cement, cutlery, fertilizers, paints and varnishes, surgical instruments, etc.<sup>2</sup> The adoption of the system of Home indents and the priority certificate by the Munitions Board was tantamount to the acceptance of the principles of *swadeshi*, for the time being, by the Government, and these new departures from the traditional policy of *laissez-faire* showed how

<sup>1</sup> See *Montagu-Chelmsford Report*, par. 337.

<sup>2</sup> See S. G. Panandikar, *The Economic Consequences of the War for India*, pp. 103-9.

much could be done in the sphere of industrial development with the active co-operation and assistance of the Government. Departments of Industries were started by the end of the war in all the provinces as recommended by the Industrial Commission, and the Munitions Board was merged in the Imperial Department of Industry and Commerce. The Chemical Services Committee was also appointed as suggested by the Industrial Commission. The plan of an all-India chemical service was, however, subsequently dropped, and freedom of action in this matter was allowed to the provincial Governments, who became responsible for industrial development under the Government of India Act of 1919. Indeed, it may be observed here that the scheme adumbrated by the Industrial Commission, which assumed the initiative of the Central Government, could not fit in properly with the Montagu-Chelmsford Reforms of which the keynote was provincial autonomy.<sup>1</sup>

§5. Industrial boom after the war of 1914-18.—The cessation of the war was followed everywhere by a short period of boom and feverish industrial activity, caused by the expectation of a strong revival in demand for manufactures which had remained unfulfilled during the war, and of the continuation of the high level of war profits and inflation of currency. In India there was a period of great prosperity for the manufacturing and exporting industries, such as cotton, jute, cement, steel and iron, manganese, oil-seeds, hides and skins, etc. During the war company flotation was slow, owing to the difficulties in the importation of new plant, machinery, stores and technical experts. But after its close there set in a regular mania for company flotation, especially in the years 1919-21. High dividends were declared and the prices of industrial securities rose to unprecedented heights.<sup>2</sup> The currency policy of the Government, which caused violent fluctuations in the exchange value of the rupee, aggravated both the boom and the subsequent depression.

§6. Trade depression.—The boom was, however, short-lived though its duration varied in different industries. The tide definitely turned about the middle of 1920 and a prolonged period of economic depression set in. India, like many other countries, showed all the familiar symptoms of a trade cycle. The expectations of a firm demand and high prices were not fulfilled owing to the exhaustion brought about by the war and the deflation of currency which was now started in England and various other countries. Moreover, in India the big slump in the exchange value of the rupee in 1920-1 embarrassed the importers, who had counted on the exchange remaining high, while the exporters now felt the full force of the previous high level of exchange. The extension of old industries and the establishment of new ones planned during the boom period at inflated prices, now began to weigh on the market and aggravated the depression. There were heavy liquidations of companies and firms and the outlook

<sup>1</sup> See Clow, *op. cit.*, ch. iii.

<sup>2</sup> See *Textile Tariff Board Report*, Table VIII and *Bombay Stock Exchange Enquiry Committee Report*, p. 51.

for those who survived the crash was far from bright. The subsequent rise in the exchange value of the rupee from 1924 further prolonged the period of trade depression, intensifying as it did the force of foreign competition in the Indian markets at a time when the depreciated currencies abroad had already placed that competition at an advantage. The Tariff Board (see §8 below) thus felt constrained to allow for this handicap in making their recommendations for protection to the iron and steel and the textile industries, which, with the swing of the pendulum, had now to face heavy losses or had to content themselves with such paltry dividends as 4.9 per cent on the paid-up capital in 1923 and 2.2 per cent in 1925 and 1926. In these circumstances the stock exchanges became extremely unsteady and showed a marked bearish tendency. The New York crisis (1929) and the world slump in prices further intensified the trade depression in India, which being mainly an agricultural country suffered more than industrial countries like Great Britain.<sup>1</sup> The decline in the purchasing power of the agriculturist brought about by a big drop in the prices of agricultural products adversely affected the fortunes of Indian industry. The agricultural depression abroad reduced the demand for Indian jute manufactures in the foreign markets. Further, the depression in the industrial countries and the depreciation of currencies practised by some of them intensified the competition of foreign-manufactured goods in the Indian market, and served to accentuate the depression of prices of industrial products.

§7. *Industrial recovery and recession.*—As in most countries which suffered from the effects of the great depression, particularly in the sterling group, the first definite signs of an upward movement in industrial conditions made their appearance in India during and after 1932. Production in all industries except coal recorded considerable increases. The largest increase was in the case of sugar, its production more than trebling itself during the period 1929–30 to 1936–7. The next largest increase was in the case of cotton piece-goods, where the yardage produced was nearly doubled in the same period. Cement, steel and iron, paper and jute manufactures also registered substantial increases.<sup>2</sup> This remarkable increase in industrial production despite the reduced purchasing power of the agriculturist is explained by the stimulus given partly by the protection enjoyed by several Indian industries, especially sugar, textiles, steel and iron, and partly by the imports of cheap machinery and stores. The funds released in the money market by the sale and export of large quantities of gold after September 1931 made a larger amount of capital available, thus facilitating the floating of a large number of joint-stock companies in India.<sup>3</sup> Finally, the swadeshi spirit encouraged by the Indian National Congress also considerably helped the expansion of Indian industry.

The year 1937–8 witnessed a sudden and rapid change from boom to

<sup>1</sup> For a discussion of the causes of the world economic depression and its effect on India see vol. II, chs. vi and x.

<sup>2</sup> For further particulars, see vol. II, ch. ii.

<sup>3</sup> See vol. II, ch. ix, §22.



relative depression popularly called 'recession'. At the beginning of the year there was great activity in the various commodity and share markets. Optimism and confidence pervaded the business community, leading to the familiar symptoms of the trade cycle, namely, speculation and over-trading. The recovery in agricultural prices and increase in the world trade in agricultural products and raw materials in the early months of 1937 had meant a growing income for India's large agricultural population.<sup>1</sup> This increased purchasing power in the hands of the agriculturists brought about a better demand for the products of Indian industries, the position of which consequently became much better than for many years past. Further advance in industrial production was made, especially in the first half of 1937-8. The production of sugar increased the most. The cotton mill industry attained a new record, as also the production of steel manufactures. The coal industry also had a larger output to its credit. The output of the jute industry increased abnormally after the breakdown of the agreement regarding working hours. But the tide turned in 1937-8 and the prices of primary commodities and share values declined sharply. Industries resisted the downward movement for some time; but after October 1937, when world conditions following in the wake of the recession of American origin deteriorated still further, the resistance of most Indian industries gave way and they succumbed to the general depression in the commodity and share markets. An upward movement in industrial profits and security values was noticeable at the end of June 1938 following early signs of recovery in the U.S.A. and the United Kingdom; but the improvement was not maintained, the tense international situation being one of the depressing factors. The same factor militated against a sustained recovery in the first eight months of the year 1939 prior to the outbreak of war. There was generally a dull feeling in the industrial share market with the exception of iron and steel shares, which were steady owing to sustained production in the industry.

§8. Introduction of protective tariffs, etc.—A large part of the stimulus received by Indian industries during the war of 1914-18 was necessarily temporary in character and ceased to operate with the cessation of the war purchases of the Government and the re-appearance of normal trading relations with other countries, after the Armistice in November 1918. Indian manufactures were again subjected to the full force of foreign competition helped by the absence of any protective tariff barriers, apart from enhanced import duties imposed for revenue purposes under the financial stress caused by the war. In these conditions, the long-standing demand for a revision of tariff policy again became more vocal and insistent than ever. The subject of tariff policy had been excluded, much against popular wishes, from the terms of reference of the Industrial Commission, on the ground that it was not desirable at that juncture to raise any question of the modification of India's fiscal policy. The sup-

<sup>1</sup> See vol. II, ch. vi, §8.

port lent by the Montagu-Chelmsford Report to the view that, since the theoretical free trader hardly existed in India, considerations of justice and fairness required that Indians should have full liberty of deciding their own tariff policy and that the Government had no right to force their free trade convictions on them, strengthened the hands of the protectionist party in India. Of similar tenor and significance was the recommendation of the Joint Select Committee on the Government of India Bill of 1919, that a convention in favour of fiscal autonomy should be established. This was subsequently accepted by the British Parliament. The question of regulating inter-imperial fiscal relations on the basis of a system of preference in favour of goods of Empire origin, which the war had brought into prominence, once more threw into relief the general question of the tariff relations of India with other countries. The Committee of the Imperial Legislative Council appointed by the Government of India in February 1920, to report on the feasibility of Imperial Preference and the future fiscal policy of India, declared its inability to make definite recommendations on the latter question and suggested a special commission of inquiry for the purpose. This eventually led to the appointment of the Fiscal Commission in October 1921. The policy of discriminating protection, to be administered through an expert body called the Tariff Board, recommended by the Commission, was accepted by the Government of India early in 1923. In accordance with that policy, a Tariff Board was instituted to examine the claims for protection of several industries. On its recommendation protection was granted to steel and iron, cotton textiles, paper, matches, sugar and other industries.<sup>1</sup>

The indifference of the state towards industrial development which so long seemed to lie as a blight on the economic aspirations of the country was thus apparently abandoned, and instead of repeating the barren formulæ of free trade and *laissez-faire* in the sphere of industry, the Government began to make some positive efforts to help industrial development to proceed along sound lines.<sup>2</sup> This change in the industrial policy of the state gathered fresh momentum with the outbreak of war in 1939 (see §§10-14 below) although it was generally felt that even greater activity might have been shown by the Government, in order to bring about rapid industrialization.<sup>3</sup> With proper guidance on the part of the state, substantial progress in industrialization can be achieved within a comparatively short time. We do not agree with Calvert's opinion that 'little but failure and disappointment will result from any attempt to compress six hundred years of the industrial history of Europe into a short period of state-subsidized activity'.<sup>4</sup> The rapid industrialization of Germany and Japan in the nineteenth century proves the unsoundness of such a con-

<sup>1</sup> See vol. II, ch. ii.

<sup>2</sup> See vol. II, chs. i and ii for the various measures adopted by the Central and Provincial Governments to encourage the growth of large-scale and cottage industries.

<sup>3</sup> See V. K. R. V. Rao, *What is Wrong with Indian Economic Life?*, pp. 83-94.

<sup>4</sup> *Wealth and Welfare of the Punjab*, p. 176.

tention. A similar argument used to be advanced in the sphere of politics, and it was suggested that what took England a thousand years of constitutional evolution, could not be achieved in India in a generation or two. But surely one may profit by the experience of other countries, and this ought to shorten the period of evolution in economic as in political matters.

§9. The Congress move for industrial planning for India.—A significant development in the recent industrial history of India is the Congress move for industrial planning for India. For nearly two decades the Indian National Congress was wedded to the policy of reviving and encouraging cottage industries and was generally opposed to industrialization in the modern sense of the term, involving the development of large-scale mechanized industries. The only constructive contribution of the Congress on the economic side of its activities was the establishment of the All-India Spinners' Association and the All-India Village Industries Association. This policy was modified, thanks to the able lead given by Mr S. C. Bose, the ex-Congress President, and Mr V. V. Giri, former Madras Minister, who were responsible for convening a Conference of Industries Ministers from the 'Congress' provinces at Delhi in October 1938. The Conference came to the conclusion that the problems of poverty and unemployment, of national defence and of economic regeneration in general could not be solved without industrialization. A community which resisted industrialization had little chance of surviving international competition.

As a step towards such industrialization the Conference drew up a comprehensive scheme of national planning. The scheme emphasized the urgency of taking steps to start key industries of national importance, such as the manufacture of machinery and plant and tools of all kinds, manufacture of automobiles, manufacture of electrical plant and accessories, manufacture of heavy chemicals, power generation and supply, etc. For preliminary work the Conference appointed a National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru. The Committee was formally constituted at Bombay about the middle of December 1938 and soon after issued a comprehensive questionnaire relating to the entire economic life of the country, including large-scale, medium-scale and cottage industries, agriculture, transport, and trade. Later 29 sub-committees on various subjects were constituted. To these two more sub-committees were subsequently added, viz. on Census and Statistics and Publicity. About twenty of them reported to the National Planning Committee, which published its broad conclusions on the recommendations made by the sub-committees. The National Planning Committee tentatively desired so to prescribe the standard of achievement and the period within which that achievement could be made as at least to double the standard of living including not only the absolute necessities but also the amenities of civilized existence within a period of 5 to 10 years.

The change in the political situation in the country following the outbreak of war in September 1939 and the resignation of Congress Ministries gave a setback to the work of the National Planning Committee which only resumed its activity after five years of quiescence in September 1945. The work of the Planning Committee was hampered by inadequate finance and absence of full and precise statistical data and whatever conclusions it arrived at were too vague and too much taken up with generalities to be practically useful. The best-known of the other non-official plans is the Bombay Plan, of which a brief account has been given in §15 of Volume II of this book. The different provincial Governments and some of the major Indian States formulated their own plans for post-war reconstruction. It is for the Central Government to co-ordinate these various schemes and execute a carefully conceived programme of development in the interests of the whole country.

§10. Industrial development during and after the second world war.—We may now examine the various factors which to some extent favoured industrial development during the 1939–45 war. In the first place, the drastic curtailment and restrictions on imports created conditions of quasi-monopoly for many of the Indian industries in the home market. Secondly, the increased demand from the Commonwealth for war materials, and India's own defence requirements, called for greatly increased industrial activity and exploitation of the country's industrial potentialities. The role of India as the leader of the Eastern Group of Commonwealth countries and provider of the allied armies in the Near East was indicated by the session of the Eastern Group Conference at New Delhi in October 1940, the visit of the Roger Mission to this country and the location of the Eastern Group Council in India. Similar significance attached to the visit to India in April 1942 of the American Technical Mission under the Lease-Lend Act. The modernization of the Indian army as recommended by the Chatfield Committee supplied a further incentive to the industrial development of India. These developments were borne out by striking facts and figures. Overseas war orders exceeding Rs. 160 crores were placed in India during the first two years of the war. The Department of Supply, corresponding to some extent to the Munitions Board set up during the previous war, alone executed orders worth over Rs. 56 and Rs. 76 crores in the first and second year of the war respectively. These orders covered a wide range of manufactured goods such as cotton textiles, jute, iron and steel, engineering stores, leather, etc. A big scheme of expansion of war factories in addition to the increase of production in the ordnance factories was put into operation by the Government of India, which fostered industry, encouraging substitutes and adjusting specifications to increased output. It was estimated that as many as 20,000 articles required by a modern army thus came to be manufactured in the country. India was eventually producing 90 per cent of her war requirements and sending abroad large quantities of arms, ammunition, shells, rifles, sandbags, saddles, electric cables, road-rolling plant, electric fans, greatcoats, etc.

Another favourable factor was the further liberalization of the industrial policy of the Government of India during the war. Assurance was given of protection against unfair competition from outside after the war to industries created to meet war requirements, as in the case of the steel pipes and tubes industry or the aluminium industry. Secondly, the Government of India started a Board of Scientific and Industrial Research in 1940, whose finances were in the subsequent year placed on a firmer footing by the establishment of a separate Industrial Research Fund with an annual allotment of Rs. 10 lakhs for a period of five years. Thirdly, the Government of India tried to remedy the shortage of technicians and skilled workers, partly by launching the scheme for training war technicians recommended by the Sargent Committee and partly by taking advantage of the facilities offered to Indian apprentices for technical training in factories in the United Kingdom under the Bevin scheme. Finally mention may be made of a number of Committees set up to deal with post-war reconstruction and the problems relating to transition from war to peace economy.

§11. Reconstruction Committees set up.—Early in June 1941 the Government of India made an announcement regarding the constitution of the Post-War Reconstruction Committee to consider questions relating to the post-war economic reconstruction of India. At its first meeting, held on 23 June 1941, this Committee, consisting of the Secretaries of the Government of India in all its Departments presided over by the Commerce Member, decided to set up four sub-committees to deal with different aspects of post-war reconstruction. These sub-committees, consisting of officials and non-officials representing trade, commerce and industries, were as follows: (i) Labour and Demobilization Committee; (ii) Committee on Disposal of War Contracts; (iii) Committee on Public Works, and (iv) Committee on International Trade and Agriculture. Subsequently a fifth Committee, drawn from Indian Universities, was set up. The official Reconstruction (Co-ordination) Committee was intended to co-ordinate the activities of the five Committees mentioned above and to supply the necessary materials to them. The Co-ordination Committee was to receive the reports of other committees and guide them whenever necessary. On the recommendation of the Co-ordination Committee the Governor-General-in-Council was to take such action as might be considered necessary.

(i) *Committee on Labour and Demobilization.*—It was the duty of this Committee: (a) to form a statistical estimate of the increasing volume of employment in the industries primarily affected by war demands, viz. ordnance and clothing factories, engineering, textiles, etc.; (b) to consider how far labour actually employed in a given direction could be employed in other directions without retraining; what, if any, arrangements for retraining could be instituted and what the direction of retraining should be; finally, whether any arrangements for relief works would be necessary and, if so, where and under what conditions of pay,

terms of employment, etc.; (c) to keep in close touch with the army authorities so that their plans of demobilization should not accentuate the problem of employment on the cessation of hostilities (the army should, therefore, keep an accurate record of the former occupations of recruits); and (d) to consider whether the existing facilities of linking up the prospective employer with the employee were adequate in view of the employment crisis in the post-war period.

(ii) *Committee on Disposal of War Contracts*.—It was the duty of this Committee to suggest arrangements so as to prevent the whole economic structure from being demoralized by a sudden cessation of war production, to taper off war-production as commercial demand expanded and to arrange for the orderly disposal of surplus stocks so as not to break prices and check incipient demands for new production.

(iii) *Committee on Public Works and Government Purchase Policies*.—This Committee was to consider the problem of utilization or re-employment of demobilized labour on a large scale, and to suggest an agreed public works policy, the object of which would be to accelerate public works as the various demands for war purposes tapered off.

(iv) *Committee on International Trade and Agriculture*.—The last Reconstruction Committee was to concern itself with trade, international trade policy and agricultural policy.

§12. *Consultative Committee of Economists*.—Besides the four Reconstruction Committees, a Consultative Committee of Economists drawn from the various Indian Universities was also set up to co-operate with the various Reconstruction Committees, and to offer advice to the Government regarding the solution of post-war reconstruction problems in the light of the materials and data placed at the disposal of the Committee. Presiding over the first meeting of the Consultative Committee of Economists held on 24 October 1941, Sir A. Ramaswami Mudaliar indicated the nature of the task before the Committee, which should address itself to the formulation of positive alternative policies for ready application. These related to questions such as the following: what should be the post-war policy of the Government regarding trade and industrial developments? How could their progress be ensured on lines planned in advance? How far can India be economically self-sufficient and how far is it desirable to aim at this goal? At a later stage the Committee of Economists was expected to deal with various post-war problems of currency, exchange, banking, etc.

We may conclude with a brief sketch of the machinery of economic planning set up in response to the demand for rapid industrialization which, in the course of the war, gathered irresistible strength.

The publication of the Bombay Plan early in 1944 undoubtedly stimulated the interest of the Government in the question of industrialization and forced it to take concrete steps towards its solution. A special department called the Planning and Development Department was created and began to function in August 1944, but was closed in 1946, before the

establishment of the Interim Government. It was specifically charged with the task of Industrial Planning. A separate office under the Industrial Adviser was attached to the Department for this purpose. Twenty-nine special panels were created, each of which was assigned one or more industries for which it was expected to plan and report to the Industrial Adviser. There were also a number of Policy Committees on different subjects such as Transport, Trade, Posts and Aviation, Industries, Shipping and Agriculture, with officials and non-officials as members and representing the Central Government as well as the Provinces and the States, which were to meet once or twice a year to review the work done and lay down a policy for the future.

At the instance of the Planning and Development Department, the different provinces prepared their own Five-Year Plans, which were however, mainly a collection of the schemes put forward by the different Government departments for their own expansion and development.

The abrupt termination of hostilities and the serious food situation due to widespread failure of crops, and later the problems of refugee rehabilitation and of inflation, compelled the Government to drop for the time being some of the most ambitious plans and select for implementation only those which were considered most urgent or which had already progressed too far to be halted and those which were likely to be productive within a short period.

Apart from the stark necessity of facing these grave immediate issues, there are other causes why solid results could not be expected from the planning machinery outlined above, which suffered from serious defects of organization. The Department of Planning was not invested with powers to direct and control central as well as provincial planning. While its functions in respect of industrial planning were defined with some precision, its functions in respect of other aspects of planning were left vague and undefined. Planning must be comprehensive and properly integrated to be fruitful of results. There have been too many planning agencies working in isolated compartments and for want of co-ordination the 'planning' is so chaotic as to be a misnomer, being in fact hopelessly unplanned.

§13. Handicaps of Indian industry.—India is still dependent on foreign supplies of machinery, essential stores and accessories. It was the difficulty of importing these freely which largely deprived India of the opportunity of building up her industry in the first world war. For the second time in a generation India was called upon to fight with inadequate industrial equipment. India also lacks the heavy chemical industries which are indispensable for industrial development. A further serious handicap is the shortage of experts and technicians, which caused one of the worst bottle-necks in India's war-supply programme.

In spite of these handicaps a number of industries benefited in different degrees by the conditions created by the war. These may be divided into two classes : (i) large organized industries, old and new, and

(ii) medium-sized and small-scale (including cottage) industries, old and new. In the first class may be included existing industries such as the iron and steel, jute, cotton, leather and tanning, woollen, chemical, sugar, paper, and cement industries.<sup>1</sup> Of special interest to India at the moment are new large-scale industries such as the aluminium and heavy chemical industries, new branches of engineering industry including machine-tools, and the aircraft and ship-building industries. In this connexion it may be observed that while the first world war stimulated the development of Indian industries turning out consumer's goods, the second war encouraged to some extent the establishment of 'key' industries turning out producer's goods or capital goods.

It is noteworthy that the war gave a stimulus to a number of medium-sized, small-scale and cottage industries. Among the small-scale and medium-sized industries which derived substantial benefit are those connected with the manufacture of glass, rubber goods, minor chemicals, stationery, buttons, durries, cutlery, sola-pith hats and mosquito-nets.

The pressure of war orders on the production capacity of cotton mills, and the realization that the cotton handloom industry could better supply certain textile articles such as surgical bandages, brought more work to the handloom weavers. Big orders for army blankets were secured by the woollen handloom industry.

§14. *American Technical Mission.*—We may here refer to the American Technical Mission, headed by Dr Henry Grady, which visited India in April 1942, and after carrying out an investigation into India's war production submitted its Report early in June 1942 to the Governor-General of India. Although the object of the Mission was to help India in all-out production to win the war, some of its recommendations are valuable even for purposes of peace-time reconstruction. For instance, the Mission recommended a drastic rationalization and regimentation of Indian industry, also a further investigation into the possibility of producing power alcohol, further measures to extend the availability of electric power, the expansion of the steel industry, measures to stimulate the production of aluminium, measures to conserve tin and rubber, the acceleration of the production of refined sulphur, etc. It favoured great augmentation of the training programme of the Government of India, both in special institutions and in industrial plants themselves. Regimentation of the economic life of the entire community is implied in the Mission's recommendation about industry.

§15. *Industrial backwardness of India.*—That the present position of India as regards industries is backward needs no labouring. This is indicated by the overwhelming predominance of agriculture in the national economy, the small number of towns, the large export of raw materials and large import of manufactured goods in normal years and the low national dividend. There is a limited development of industries, but in the first

<sup>1</sup> For particulars regarding these industries, except the sugar industry, see vol. II, ch. ii; for the sugar industry, see ch. vi above.



place it is uneven, being restricted only to those industries which have appeared to offer safe and easy profits; generally, commerce has been preferred to new industrial ventures as a profitable mode of investment. In the second place, the Fiscal Commission's observation that 'the development has not been commensurate with the size of the country, its population and its natural resources' is even today largely valid.<sup>1</sup> Even as regards those industries which have been established in the country firmly, for example the textile industries, there has been an almost exclusive reliance on foreign imports for the supply of accessories, stores and machinery, etc. The facility with which they could be imported on account of the anxiety of industrially advanced nations to secure the Indian market, combined with the policy of free trade, made the establishment of these industries a matter of difficulty. The Government's policy in the past of placing indents for their miscellaneous stores with the India Office, encouraged by the absence of a Stores Purchase Department in India, was not calculated to improve matters in this respect. India thus found herself without the basic equipment necessary for a stable industrial organization in the form of metallurgical and chemical industries. Iron and steel and the engineering industries existed on a negligible scale. India could not boast of so much as 'a machine to make nails or screws; though she could build a locomotive or a marine engine, provided most of the necessary parts were obtained from abroad'.<sup>2</sup> Chemical industries for the manufacture of acids and alkalis of industrial importance were practically non-existent and thus severely handicapped such indigenous manufactures as paper, matches, oils, explosives, dyes and textiles, which were compelled to depend on foreign chemicals. Another serious industrial deficiency has been the scarcity of foremen, engineers, technical and chemical experts, owing to the unsatisfactory nature of the facilities for industrial training in India, and the consequent dependence on foreign skilled labourers, technicians and experts.

India's sources of power have already been described, and we have seen that, although her position with regard to coal, wood-fuel or oil for the purpose of generation of power is not so favourable as is sometimes imagined, there are great possibilities of utilizing her large rivers and watersheds and harnessing them to industrial uses. Her forest wealth is immense, and the development of modern means of transport and research in forest products, together with a larger investment of capital, are likely to result in a stimulus to industries based on the great variety of the forest products of the country. So far as man-power is concerned, it is true that compared with European labour Indian labour is inefficient, intermittent and floating in character, but it is abundant in quantity and is capable of improvement in quality under a proper system of theoretical and practical technical training, better housing in industrial areas, welfare work, trade union organization and so on. As regards the paucity of com-

<sup>1</sup>Report, par. 41.

<sup>2</sup>Industrial Commission Report, par. 81.

petent managers, as Calvert observes, 'the best training for the future manager is to be acquired in the mill and amongst the men he is to manage. The art is picked up in the atmosphere of industry'.<sup>1</sup> Since the atmosphere does not exist at present on any appreciable scale, the country will have to follow the example of Japan and import foreign managers, when necessary, and, more important than this, send out young men to foreign lands to receive the requisite experience and training. A time will surely come when the required atmosphere will be created in the country and recourse to either of these methods will be superfluous. Indian capital has long enjoyed the reputation of being too shy, but it may be confidently expected to be less and less timorous if reasonable assurances are forthcoming that it can be invested with security and profit. The improving banking organization of the country, the assurance of a large home market and the enthusiasm for the industrial renaissance of India should further help in drawing out the savings of the people for purposes of productive investment in modern industries. The differential rates policy followed by the Indian railway companies—an evil, the existence of which was admitted by both the Industrial and the Fiscal Commissions—had long been a grievance of the Indian industrial and commercial community, the transfer of the principal railway systems to state management, the creation of the Rates Advisory Committee and, above all, the fact that railway policy is now controlled by an independent national government must hereafter make railway administration wholly sympathetic and helpful to the progress of industrialization. The problem of improving inland road communication, which is extraordinarily defective at present, especially in rural areas, is being tackled and road construction forms an important item in practically every plan of future development.

§16. Benefits of industrial development.<sup>2</sup>—The benefits which will accrue to India from industrial development are so obvious as scarcely to need formal statement. We have had many occasions for commenting on the great poverty of the Indian masses and the many weaknesses in our economic system to which it is due.

(i) One of these weaknesses is the excessive concentration of the productive energies of the people on one single occupation, namely, agriculture. An adequate development of industries will remedy this situation. It will make for a more even distribution of the population among a variety of occupations and bring about a more stable national economy. It will thus make the problem of famine relief much less serious than it is at present, by drawing off a certain proportion of the surplus numbers at present engaged in agriculture.

(ii) Secondly, the establishment of industries will lead to an increase in the national dividend and will enable the masses to raise their standard of living, which in its turn will increase their efficiency and hence

<sup>1</sup> *Wealth and Welfare of the Punjab*, p. 168.

<sup>2</sup> See *Fiscal Commission Report*, ch. iv.

their productive capacity. A beneficent spiral of action and reaction will thus be set up.

(iii) Thirdly, industrial development will improve the taxable capacity of the people through the increase in the national dividend and will enable the state to finance schemes of national regeneration which are at present held up for want of funds. It is also clear that a diversification of industry will make the system of taxation much more elastic than at present, for taxes on agriculture like land revenue are incapable of ready expansion, but taxes on other sources, of which the income-tax is the most outstanding instance, are to a large extent automatic and bring additional money into the state coffers without much difficulty.

There is no reason therefore to suppose that a policy of industrialization will adversely affect the central revenues owing to reduced receipts from import duties on foreign-manufactured goods. Moreover, while some of the existing imports may dwindle, other imports will take their place as the standard of living in the country rises. Altogether on a balance the public revenues will gain in consequence of the industrialization of the country.

(iv) Another important advantage of industrialization is its favourable reaction on national character and the scope it gives to diversity of aptitude and talent. It supplies an antidote to the intellectual inertia and conservatism which characterize a predominantly agricultural country, unless agriculture also is organized on industrial lines as in the United States and Denmark. Generally speaking, an industrial population is intellectually more alert, and towns have therefore always been the centres and radiators of civilization and culture. As Maitland says : ' There be thoughts which come to men when they are tightly packed.'<sup>1</sup> Industrial training will also offset that absence of practical grasp of affairs which characterizes the products of the too literary system of education which prevails at present, and will generally enable the people to shoulder better the new responsibilities which political independence has placed on them.

(v) Industrialization will further go a long way towards supplying a solution of the serious problem of middle-class unemployment which may loom large again in these post-war years. The young men will be relieved from the necessity of depending exclusively on Government service or a few overstocked professions such as law, medicine, etc.

(vi) The military importance of industrialization has already been discussed elsewhere.

(vii) Further, the unprofitable habit of hoarding which, although it is generally exaggerated, must all the same be admitted to exist, is likely to diminish with the greater opportunities for investment and the prospect of making handsome profits, which industrial expansion will offer. The joint-stock organization of modern industry serves to utilize small amounts of individual savings which would otherwise lie dormant.

<sup>1</sup> Quoted by Carr-Saunders, *The Population Problem*, p. 425.

There is the further consideration that wealth which is accumulated in industrial enterprises is more readily available for further employment as capital than similar amounts acquired, say, by way of agricultural profits.

(viii) Lastly, an extension of industry by increasing the output of national wealth will increase the resources of the people in general, and more particularly, of that section of the people which is engaged in industrial production, as wages and profits in industry are generally higher than in agriculture.

§17. Reactions of industry on agriculture.—The reactions on agriculture would be almost wholly beneficial. One reason for the languishing condition of Indian agriculture is, as we have seen, a deficiency of capital. This shortage of capital is likely to be remedied by the accumulations in industry being made available for investment in agriculture. We may recall in this connexion that the great advance of English agriculture during the period of the Industrial Revolution was financed by the profits made by the commercial and industrial magnates. The strong sentiment in favour of investment in land is sure to attract a considerable portion of the earnings of successful business men in much the same way as this happened in England, owing to the great political and social status attaching to the possession of land.

The effect on agricultural wages will be to raise them, especially in areas adjoining centres of industrial activity. One of the consequences of industrial advance would be a multiplication of towns and cities, and we have already noted that the propinquity of urban areas has a stimulating effect on rural populations, making them more progressive. Again, agriculture, in its capacity as provider of raw materials needed for industry, is sure to receive an impetus to enhanced production to meet the ever-increasing demand of the expanding industries.

It is sometimes argued that the development of industries, by drawing off the population from the land, will lead to a diminished food supply. However, having regard to the fact that at present the industrial workers are less than two per cent of the agricultural workers, it does not seem likely that even with a very rapid development of industries this distribution of population will be seriously altered in favour of industry and against agriculture. Besides we are looking forward to an era of improved agriculture which will enable a smaller population, not only to maintain production on the present scale but to increase it considerably by the adoption of up-to-date methods. The fear therefore that is sometimes expressed that agriculture may come to occupy a subordinate place as a result of industrialization is without any foundation. In any case, we must not make a fetish either of agriculture or of industry. Whether agriculture occupies the first or second place is after all immaterial so long as the nation divides its labour and capital between the two in such a manner as to maximize the national dividend. As a matter of fact agriculture is so much suited to the conditions of this country that it will

always retain its importance in India. This will be even more so if we allow weight, as we very well might, to the non-economic arguments in favour of agriculture, namely, that it helps to maintain a sturdy and prosperous yeomanry, which is the strongest bulwark of the state.

The controversy of agriculture versus manufactures is thus pointless and unreal. We have seen that agriculture stands to benefit vastly by industrial development, and it is equally true that the prosperity of industry is bound up with that of agriculture if only because the agriculturist in India will be the principal customer for the products of Indian industries.<sup>1</sup>

§18. Capital for industries.—This may be discussed under two headings: indigenous capital and external capital.

*Indigenous capital.*—We have remarked above that the indigenous capital supply of the country is tending to improve both in point of adequacy and venturesomeness, especially since the war of 1914–18. This is evidenced by the vast increase in Government rupee loans and in the paid-up capital of joint-stock companies registered in India. There is, however, still great scope and need for improvement as regards the increase and employment of the indigenous capital resources of the country, without which industrial development in India will be greatly retarded. This question has assumed great importance in view of the fact that industrial activity is no longer restricted to a few channels, such as those provided by the cotton and jute mill industries, but is in quest of other numerous fields, as exemplified by the establishment of the Tata Iron and Steel Works, cement factories, paper mills, sugar and glass factories, and the contemplation of a large number of ambitious schemes: for instance, in connexion with the greater utilization of the water-power possibilities of the country, and the production of machinery, automobiles, mill accessories, etc. All the other schemes contemplated by the various planning authorities require vast amounts of capital, and it is necessary to take proper steps to tap all the dormant capital in existence at present. In order to understand how this might be done, we must undertake a preliminary examination of the nature and extent of the capital available (i) in the mofussil and (ii) in the bigger commercial towns, and the manner in which it is employed.

(i) In the mofussil there is hardly any organization of capital owing to the practical absence of suitable banking facilities. The extension of commercial joint-stock banking presents special difficulties, although the position in this respect has been eased to some extent by the establishment of a number of branches of the Imperial Bank at the principal district towns. The Post Office Savings Banks, and latterly also co-operative banks, have been able to tap a portion of the rural savings, but on the whole, the village money-lender remains practically the only supplier of

<sup>1</sup> 'It is not a question of agriculture versus industry, but of the two great occupations expanding side by side, with agriculture always necessarily taking the lead.' (Calvert, *Wealth and Welfare of the Punjab*, p. 186.)

capital for the local needs of the agriculturist, artisan and petty trader. It is very rarely that he employs his capital in new enterprises. A large part of the savings of the well-to-do agriculturist is locked up in jewellery and hoards. Government officials and professional classes favour investment in land either by way of purchase or mortgage, though the banking habit is growing very much faster in the case of these classes than among agriculturists.

(ii) In the Presidency and commercial towns, the situation is somewhat more satisfactory. There are better banking facilities and greater readiness on the part of the people to invest savings in industrial and commercial enterprises, and, generally speaking, a well-considered and sound business proposition promoted by men of standing and technical knowledge does not fail to attract the necessary capital. But even here, difficulties are not altogether absent. The existing banking system is too inelastic from the point of view of industrial finance. The Imperial Bank is precluded from supplying long-term finance to industries and extending loans against mortgage of immoveable property under the existing law which remained unchanged in this respect even after the establishment of the Reserve Bank of India in 1935. Moreover, the Imperial Bank keeps a margin of 30 per cent or more in extending loans against the security of liquid assets. Other banks have followed this practice, which causes great inconvenience to industrial concerns. The exchange banks carry on a lucrative business in foreign exchange to which all their capital is devoted, and, moreover, most of them are foreign in management and capital. This precludes them from coming to the assistance of Indian industrial enterprises for lack of the necessary contact with indigenous industries and knowledge of Indian conditions; nor can they be expected to be very sympathetic to the needs of industrial development in this country. The Indian joint-stock banks have generally shown a tendency to adhere to orthodox commercial banking resting on short-term finance, and the experiments made by some of them (for example by the People's Bank of Lahore which went into liquidation in 1913) in the opening years of the present century to combine ordinary commercial banking with industrial banking proved a failure owing to the locking up of short-term deposits in long-term business which it involved, and also to the mistake, which was too commonly made by the banks, of sinking an excessive proportion of their funds in a single industry.

Owing to the difficulties of industrial finance, many of the large industrial concerns have at present to depend upon managing agents for the supply of both block (initial) and working capital. The managing agents also purchase large blocks of shares and debentures of the mills controlled by them, and it is mainly on their credit that banks lend to industrial companies.<sup>1</sup> 'The managing agency system is the Indian substitute for a well-organized capital market and an industrial banking system of

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, par. 350. See also S. K. Basu, *Industrial Finance in India*, ch. vi.

Western countries, and has come into existence by the sheer force of economic circumstances.<sup>1</sup> It is by no means a perfect arrangement and has many serious drawbacks.<sup>2</sup> Another source from which mills in Bombay, Ahmedabad and Indore obtain finance consists of deposits from the public. This is, however, a very unsatisfactory and precarious source of finance and has been aptly called a 'fair-weather friend'. When times are bad, these deposits are liable to be withdrawn from good as well as bad concerns, thereby aggravating the position at a time when all the resources are required to carry over what may be only a temporary period of depression. Lack of a recognized method by which the general public can obtain advice and assistance as regards investments also prevents a free flow of capital for industrial development.

We thus reach the conclusion that even in towns there is no adequate provision for the long-term finance required by industries. A few industrial banks were started, but the most important and the one which at first appeared to hold out the brightest prospects, namely, the Tata Industrial Bank, after a somewhat ineffective and inglorious career, soon abandoned the industrial side of its work and contented itself for a while with ordinary commercial banking and foreign exchange business, until it was eventually (1923) merged in the Central Bank of India, which is a purely commercial bank. The short career and failure of the Tata Industrial Bank may, among other reasons, be attributed to the fact that the Bank was started during a boom and had an extraordinarily difficult period to face. Moreover, it committed the blunder of becoming more or less the promoter and financier of concerns associated with one firm of managing agents.<sup>3</sup>

The difficulties of financing industrial enterprises operate with special force in the case of small middle-class entrepreneurs who, unlike the big industrial magnates and joint-stock corporations, cannot furnish the security of stocks or approved names. Co-operative credit is not suited to their case, being useful only for small artisans like the weavers. In these circumstances, there has been an insistent demand for some financial assistance on the part of the state directly or indirectly by some such means as guaranteed dividends, direct loans, purchase of finished products and so forth. The subject of industrial finance was reviewed at length by the Industrial Commission (1916-18) and later by the Central Banking Enquiry Committee (1930-1).

The chief method that commended itself to the Industrial Commission was the establishment of special industrial banks in India. They considered that the establishment of such banks, working on approved lines, was of sufficient national importance to justify Government assistance. What was required was a bank which could keep in touch with small industrialists, was able to estimate the prospects of a fairly extensive

<sup>1</sup> Panandikar, *Banking in India*, p. 215.

<sup>2</sup> A short account of the origin and working of the system is given in vol. II, ch. ii.

<sup>3</sup> See P. S. Lokanathan, *Industrial Organization in India*, pp. 258-9.

range of industries, and possessed funds which it could afford to lock up for a time in securities not readily realizable. They contemplated that, whatever other assistance the Government might give, they should supply expert advice to industrial banks through the Departments of Industries in order that the banks might be in a position to estimate the prospects of industrial projects seeking their assistance. The industrial banks would not themselves be able to enlist the services of experts, and the Government would do well to supply the need.<sup>1</sup> Problems in connexion with the constitution of industrial banks, as also the recommendations made by the Central Banking Enquiry Committee in favour of the establishment of Provincial Industrial Corporations and an All-India Industrial Corporation, are discussed in volume II.<sup>2</sup>

Pending the establishment of such banks, the Industrial Commission suggested that the existing joint-stock banks should finance middle-class industrialists by advancing loans, subject to a guarantee by the Government, after an investigation by the Director of Industries and his expert staff into the financial standing of the applicants and the prospects of their business. The Commission further recommended that the Government should always provide direct financial aid in a few cases, such as public utility enterprises or those of national importance. Such assistance might take the form of a guarantee of dividends, loans of money, an undertaking given by the Government to purchase the output, or state contributions to the share capital. All these forms of aid should be subject to suitable precautions in order to safeguard the financial interest of the Government and to prevent the concessions from being exploited by foreign capitalists. The financial stringency of the inter-war years was probably one of the reasons for the indefinite postponement of vital proposals, such as the establishment of industrial banks. It is true that State Aid to Industries Acts have been in operation in the Punjab, Madras, Mysore, Bihar, Orissa and Bengal since 1923 and State Aid to Industries Rules have been issued in Bombay. But these Acts have not been very helpful to industrial finance, and in the aggregate only small amounts have been advanced under their provisions.<sup>3</sup> The establishment of separate industrial banks therefore is still a desideratum. The comprehensive survey of Indian banking conducted by the Central and Provincial Banking Enquiry Committees also served to emphasize further the need for a satisfactory solution of the present difficulties of industrial finance. In the questionnaire issued by the Central Banking Enquiry Committee special prominence was given to the subject of industrial banks and credit facilities for India's main industries, and its recommendations, if given effect to, would place industrial finance on a progressive basis. State-

<sup>1</sup> See *Industrial Commission Report*, pars. 287-92.

<sup>2</sup> Ch. xi; see also *Report of the Central Banking Enquiry Committee*, pars. 401-9.

<sup>3</sup> For a detailed review of the working of these Acts in the various provinces, see *Proceedings of the Fifth Industries Conference* [Bulletin No. 50, of *Indian Industries and Labour*].



aided industrial credit corporations were established in 1936-7 in the United Provinces and Bengal.<sup>1</sup> The Bombay Industrial and Economic Survey Committee (1940) also strongly recommended a small Industries Bank for the financing of small-scale industries by the Provincial Government. The recent legislative action (Industrial Financial Corporation Act, 1948) taken by the Central Government to establish an Industrial Financial Corporation is discussed in vol. II, chap. xi, §55.<sup>2</sup>

§19. External capital.—The problem of external capital has come into special prominence since the adoption of the policy of protection in 1923. It is generally felt that the advantage of protection to the nation would be largely cancelled if foreign capital and enterprise were allowed, without let or hindrance, to take shelter behind the tariff walls. Even under the regime of free trade a considerable number of companies with foreign capital established themselves in the country. Indeed, as we have already seen, modern industrialism in India owes its inception to foreign capital. The question of the right policy to be adopted with reference to foreign capital was examined both by the Fiscal Commission (1921-2), and by the External Capital Committee, which was appointed in 1924 in connexion with the debates on the Steel Protection Bill in the Assembly.

§20. Amount of foreign capital.—It is difficult to form an accurate estimate of the amount of external capital invested in India, but there is enough statistical material for a rough estimate.<sup>3</sup> A recent estimate of foreign investments in India by B. R. Shenoy placed them at £2,275 millions in March 1945. This was arrived at as follows: Market value of external debt = £830.61 million; multiplied by the wholesale price index, this comes to £2,058 million. Add to this £162.40 million, which represents the foreigners' share in rupee loans. This is, however, a considerable overestimate as *inter alia* it does not take into account the large transfer of foreign business to Indian hands that has taken place since 1939.<sup>4</sup> Besides, full allowance for the actual rise in security and share prices, which in many cases are artificially inflated, is not justified, because even if it were decided to buy over all foreign assets, it would not be impossible to fix the purchase prices at fair and reasonable levels considerably lower than the current levels.

Further, Indians hold a large and increasing share both in external companies and in companies with rupee capital under non-Indian management, for example, in the jute mills, although as against this we must

<sup>1</sup> This question is discussed further in vol. II, ch. i, §14 and ch. xi, §54. See also N. Das, *Industrial Enterprise in India*, pp. 138-40.

<sup>2</sup> For further particulars, see *Report of the Bombay Economic and Industrial Survey Committee*, par. 219.

<sup>3</sup> See 'India Debtor or Creditor?', article in *Eastern Economist*, 24 May 1946.

<sup>4</sup> Since 1914 the tendency has been noticeable for the volume of Indian capital employed as well as the number of Indian concerns to increase more rapidly than foreign capital and foreign concerns. Conditions brought about by the 1939-45 war have greatly intensified this tendency.

note that companies with rupee capital registered in India may have a large number of foreign shareholders and the control may be in non-Indian hands. Cases in point are the jute mills of Calcutta, the Buckingham and Carnatic Cotton Mills, Madras, and the Cawnpore Woollen Mills.<sup>1</sup>

Apart from any question of an accurate computation of the amount of foreign capital in India, there is no doubt about the broad fact with which we are mainly concerned here, namely, that the total amount of foreign capital engaged in this country in some form or other is still considerable. Many of the large-scale business enterprises in India, such as banks, shipping companies, railways, insurance companies, tea and coffee plantations, mining companies, tanneries, etc., are carried on with the help of foreign capital, though in recent years Indian capital is striking out new paths for itself and also increasing as regards the aggregate amount.

§21. Foreign capital in India: main issues.—We may now consider the question of national policy with reference to foreign capital. Foreign capital may enter the country either as loan capital or as investment capital. It is generally agreed as regards the former that, while every endeavour should be made to mobilize the internal capital resources of the country, so long as indigenous capital is not forthcoming sufficiently rapidly and in adequate quantity, there is not only no objection to borrowing capital from abroad but it is positively advantageous to do so.

Other countries such as Japan<sup>2</sup> and the United States of America, although intensely nationalistic in feeling and policy, have encouraged the use of foreign capital in this form. Similarly, educated non-official Indian opinion has not opposed the use of foreign capital in this sense. R. C. Dutt, for instance, regarded the policy of raising capital abroad to finance state railways as sound and well-advised. The foreign investor is in this case merely entitled to the stipulated rate of interest and acquires rights of control only in the event of default. Instances of this class of foreign capital are furnished by the various state and municipal loans, bonds of port authorities, bonds and debentures of private companies and bank loans.<sup>3</sup> As Dr Slater put it, 'as no foreign control enters into the question, the main matters for consideration are . . . (i) can a new asset be created by means of an external loan which will yield a net annual

<sup>1</sup> In recent years there has been a remarkable increase in the number of joint-stock companies affiliated to a nominally Indian concern, e.g. by adding the words '(India) Limited'.

<sup>2</sup> Cf. 'India's position with regard to foreign capital is very different from that of Japan. Japan borrowed abroad to finance her industrial development, but retained control of capital in her own hands and eventually evolved from a debtor to a creditor nation. . . But India in comparison with Japan has suffered from the limitation that her use of imported capital has carried with it outside control over the choice of investments, and hence over the general trend of economic development.'—Hubbard, *op. cit.*, p. 273.

<sup>3</sup> See *External Capital Committee Report*, par. 17.

return, directly or indirectly, to the people of India, exceeding the stipulated rate of interest; and (ii) can the money be borrowed abroad on the whole to greater advantage than in India? If both of these questions are answered in the affirmative, obviously the use of external capital is advantageous.' The External Capital Committee, however, introduced a reservation to the effect that, in the case of Government and quasi-Government loans, the rate of interest should not be the sole consideration between an external and an internal loan. They suggested that, apart from considerations of exchange, resort should be had to rupee loans as far as possible rather than to external loans, even though the rate of interest on the former may be somewhat more unfavourable, the idea being to foster habits of saving and investment, and furnish first-class security in the form of Government scrip and well-secured bonds as cover for bank accommodation to industrial enterprises in India. From this point of view in particular we must welcome the recent large repatriation of India's sterling debt and its ultimate conversion into rupee debt.

Foreign capital, however, normally seeks entry into the country on a speculative and profit-sharing basis and involves foreign control and management. It is against this class of capital that objections are generally urged.

§22. Objections to foreign capital.—The principal points against foreign capital have been stated as follows.<sup>1</sup> (i) The first obvious objection is that the profits go out of the country. To some this objection appears so overwhelming that, rather than allow the natural resources of the country to be developed and exploited principally for the benefit of foreigners, they would like to see a complete ban on external capital even though this might result in an indefinite postponement of the industrial development of the country. This feeling is particularly strong with regard to 'key industries' or industries important from the point of view of national defence, and those natural resources of the country, such as minerals, which once exhausted cannot be replaced. (ii) The second objection is that foreign firms prefer to choose as directors persons of their own nationality, a partiality which is extended to the selection of members of their superior staff, so that Indians have no reasonable chance of rising to positions of responsibility. They are also unwilling to train Indians as apprentices, so that one of the main advantages claimed for foreign capital is usually missed. (iii) Lastly, there is the political objection against foreign capital, namely that it gives rise to vested interests which are usually antagonistic to the political and economic aspirations of the country. This applies particularly to countries which are politically subject nations. The suzerain power in such cases helps foreign capitalistic interests to exploit the subject country and to keep it economically backward and in return for this favour, foreign capital can generally be relied upon to throw its weight and influence against any movement of political

<sup>1</sup> See *Fiscal Commission Report*, par. 290, and *Minute of Dissent*, pars. 54-8; *External Capital Committee Report*, par. 17.

emancipation or progress. Even in a country which is politically independent, foreign capital is usually found to ally itself with the actual administration in the country however oppressive and unpopular it may be, because its own selfish interests lie more in stability than in progress. The interference of foreign investors through their own governments or otherwise, in the political and economic affairs of a country where their capital is invested, is an ever-present danger. India has had bitter experience of all the evils of an unholy alliance between an alien government and foreign capital. It was only when India's march towards independence began to appear irresistible, that foreign capital found it necessary, in sheer self-defence, to identify itself more and more with the Indian standpoint.

§23. Uses and advantages of foreign capital.—There are, however, several grounds on which, in spite of the disadvantages noticed above, it may on the whole be necessary and desirable to welcome foreign capital subject to certain reservations. (i) One of the advantages of foreign capital is that, with its help, the process of industrialization and consequently of the enrichment of the country is expedited. The country gains from the beginning, because the industries, although dependent on external capital, cause an increase in the national wealth at least in the form of the wages paid to the labour that is employed. If the alternative lies between no industrial development and industrial development with the help of foreign capital, it is clear that the latter is to be preferred from the purely economic point of view. No doubt, the country would benefit most if profits as well as wages remained in the country, and it is of the utmost importance that indigenous enterprise should come forward as quickly as possible to undertake the task of the industrial development of the country, and everything should be done to encourage it to do so. The wages, whether they bear a small or a large proportion to the gross earnings, undoubtedly constitute a net gain to the country.<sup>1</sup> But the more important gain, apart from that which comes by way of an immediate increase of national wealth to the extent of the wages earned, is that the foreign capitalist imports into the country the technical knowledge, including the possession of valuable patents, and the organization which are needed to give an impetus to industrial development. But this advantage can only be reaped fully if facilities are provided by the foreign firms to train the people of the country in industrial organization and technique. In this connexion it must be noted that although European capital has been active for a long time in the field of Indian industry, its presence has not resulted in any appreciable advantage of the character described above. This shows that merely allowing unrestricted entry to foreign capital is not automatically followed by the advantages claimed for it. It is necessary to impose such conditions on foreign companies as are calculated to hasten the industrial education of the country. No useful purpose is served by denying that Indians are, at present, lacking in

<sup>1</sup> See Morison, *Economic Transition in India*, p. 220.

the qualities of industrial leadership and in industrial knowledge. But they are capable of learning the lessons which the West can teach them in these respects, provided they get proper opportunities and facilities for so doing. And if they fail to get the necessary initiation into up-to-date methods and new ideas at the hands of foreign industrialists, the main object of allowing foreign capital to establish industries in the country will be defeated.

Another advantage claimed for foreign capital is that it bears the initial cost of development and smooths the path of indigenous enterprise.<sup>1</sup> It is, however, a sign of weakness if a country always depends upon foreigners for taking the risks attendant upon industrial enterprise. The commendable initiative shown in recent years by Indian industrialists in launching new enterprises such as the aircraft factory and the ship-building yard shows that Indians can now be relied upon more and more to face pioneering risks attendant on the industrialization of the country. Sometimes they also find it advantageous to launch joint enterprises with foreign concerns allowing them a share, but not a predominating share, of control. Recent instances are the Birla-Nuffield combine for the manufacture of motor cars and the Tata-Imperial-Chemical-Industries scheme for setting up the dye-stuff industry in India.

§24. Restrictions on external capital.—On a consideration of the advantages and disadvantages of foreign capital, we come to the conclusion that, although we must not receive it too freely and with an excess of compliment, it has an important role still to perform in the industrial development of the country, provided its operations are brought under suitable regulation and it is subjected to certain restrictions. The restrictions have to be devised so as to reconcile two conflicting sets of considerations. On the one hand, foreign capital must be attracted in just the required quantities and of just the required kind. If the restrictions are too rigorous, external capital is likely to be scared away, to the detriment of the country. On the other hand, the total absence of restrictions or excessive leniency in imposing them carries with it the danger of foreign capital occupying the whole field of remunerative industry without any corresponding advantage to the country. The kind of restrictions proposed are as follows :

(i) Foreign companies should be incorporated and registered in India with a rupee capital so as to offer facilities for investment to Indians and to identify the management with Indian national interests. The objection that this restriction is likely to be evaded by the formation of private instead of joint-stock companies is met by pointing out that the large capital necessary for modern industrial enterprises cannot ordinarily be raised by private firms and that, in any case, if such an evasion is seen to occur on a large scale, special legislation might be passed to prevent it.

(ii) Secondly, a proportion of the shares of such companies should

<sup>1</sup> The history of European enterprise in India is briefly dealt with in Buchanan, *op. cit.*, ch. iii.

be reserved for Indian investors in order to ensure sufficient Indian control on the management. A less extreme variant of this is that this proportion should be reserved for Indian subscribers in all new flotations for a definite period of time. It has been objected against this provision that it would be utterly useless, unless restrictions were placed on the free transferability of shares subscribed to initially by Indians, but if the free transferability were impeded, the Indian shareholder would be penalized as the result of a restricted market for his shares and the consequent loss in their value. On the other hand, the reservation of a certain proportion of the shares for Indians would so far limit the amount of capital in the industry, and by lessening competition would increase the yield to it, but this in its turn means that the capitalist would gain at the expense of the consumer. Lastly, it is objected that it would be practically impossible to prevent the evasion of all such restrictions.<sup>1</sup>

(iii) Thirdly, it is proposed that a certain percentage of the directors should be Indians, preferably chosen by the Indian shareholders. The objection that this restriction savours of a narrow racial communalism, which is, moreover, fatal to businesslike and efficient management, has been met by the counter-argument that the very idea of imposing certain disabilities on foreign capital because it is foreign, is a kind of communalism which, on other grounds, is nevertheless regarded as necessary. Even England has not been free from the taint of communalism, meaning thereby a certain amount of discrimination against the foreigner. In illustration of this, Pandit Malaviya pointed to the provision of the English Overseas (Credit and Insurance) Act 1920, restricting the grant of credit only to such firms as possess a predominantly English character. Similarly, in India, even under the free-trade regime the Government had already accepted the necessity of such restriction whenever concessions were granted to private companies.

(iv) Fourthly, it is proposed that all companies, Indian and non-Indian, should provide facilities for the training of Indian apprentices and that penal taxation should be imposed for non-compliance.

It is generally agreed that some such restrictions on foreign capital are necessary for minimizing its disadvantages and maximizing the advantages. Such restrictions have actually been legalized in the Indian Steel Industry Protection Act of 1924. There is, however, a difference of opinion as to the cases to which they should be applied. The Majority Reports of the Fiscal Commission and the External Capital Committee, for example, preferred to impose these restrictions only when a definite concession or pecuniary assistance, such as a bounty, had been granted by the Government to companies, their general objection to the wholesale imposition of these conditions in all circumstances being that they would be too onerous and would therefore be evaded, or, if not capable of being evaded, would frighten away foreign capital almost completely. The Minority

<sup>1</sup> *External Capital Committee Report*, pars. 21-3.

Report of the Fiscal Commission, on the other hand, argued that protection in itself constitutes an important concession and that logically no distinction can be made between favouring an enterprise by definite concessions like bounties and favouring it by admission to the benefit of a general system of protection, and it opined that the restrictions proposed above should be applied in all cases, whether particular concessions are granted or not.

The general conclusion that emerges from the above discussion is that, in the first place, external capital is in some measure necessary in the present circumstances for the purpose of hastening industrialization and shortening the period of the consumer's sacrifice (which will continue so long as protective tariffs are maintained) and for providing it with the modern equipment of industry. In the second place, however, the inflow of external capital must be controlled so as best to fulfil the objects specified above. How exactly and in what circumstances this control should be exercised is a matter more of detail than of principle. The difference of opinion between the Majority and Minority Reports of the Fiscal Commission, to which we have referred, arose from the fact that the Majority had a very limited faith in the efficacy and wisdom of the proposed restrictions, whereas the Minority entertained a positive bias in favour of them. But there was a fundamental agreement between them as regards the national end to be achieved by the regulation of foreign capital.

How far the methods of regulation suggested will be effective in attaining the aims kept in view, can only be decided by a process of trial and error. If a particular type of control is found in practice to be injurious, it is always possible to withdraw it or supply a corrective to suit the circumstances of each case. We do not think that irreparable injury will result from beginning with comparatively stringent regulations on the lines recommended by the Minority Report ; if they are found unsuitable, they can be changed and moderated as may be demanded by circumstances. We do not believe that capital, that may be scared away as a result of restrictions which prove by experiment to be too severe, cannot be coaxed back again by relaxing them if and as necessary. A certain initial bias, however, in favour of restrictions on foreign capital would be in consonance with enlightened Indian opinion.

§25. Position of foreign capital under the 1935 constitution.—The Government of India Act of 1935 contained a number of provisions with respect to discrimination, etc., and they may be summarized as follows :

British subjects domiciled in the United Kingdom could not be denied the right of entry into British India nor could any disability be imposed on them in regard to travel, residence, the holding of property and of public office or the carrying on of any occupation, trade or profession in British India.

No differentiation in respect of taxation against British subjects domiciled in the United Kingdom or Burma and British companies or companies incorporated in the United Kingdom or Burma was permitted.

British companies carrying on business in India were eligible for any grant or subsidy to the same extent as it was payable to companies incorporated in British India.

No ship or aircraft registered in the United Kingdom could be subjected to any treatment which was discriminatory in favour of ships or aircraft registered in British India.

Permission was given to Indian legislatures to confine subsidies for the encouragement of trade and industry, in the case of companies not engaged in such branches at the time of the legislation, to such bodies as were incorporated under the rules of British India and which offered facilities for training Indians, and had up to half of their directors Indians.

The provisions with respect to discrimination held good only so long as corresponding discriminatory treatment was not shown in the United Kingdom against Indians or Indian companies. Moreover, these provisions were to be suspended in case a convention was made between His Majesty's Government and the Federal Government ensuring similarity of treatment to each other's nationals and companies, after the establishment of the Federation.<sup>1</sup>

Besides the statutory provisions indicated above, the Instruments of Instructions of the Governor-General and the Governors gave them wide discretionary powers in the matter of assenting to bills, enabling them to withhold their assent from any measure which, though not in form discriminatory, would in their judgement have a discriminatory effect. In case of doubt as to whether a particular bill did or did not offend against the intentions of the Constitution Act in the matter of discrimination, the Governor-General and Governors were required to reserve the bill for the signification of His Majesty's pleasure.

The principle of reciprocity by which no restrictions would ordinarily be imposed on British enterprise in India unless similar restrictions were imposed on Indian enterprise in the United Kingdom was meaningless, and had little value in practice when we realize that there is no Indian enterprise in the United Kingdom competing with British enterprise. To invest this principle with any real meaning it would be necessary to secure the rapid advance of Indian industry and trade until they became comparable to British industry and trade in point of strength and vigour. On a literal reading of the provisions against commercial discrimination any action that might be felt to be necessary in the national interests and in self-defence against the competition of powerful British concerns operating in India would be attended with the most extraordinary difficulties.

All these hampering restrictions will be swept away now we are masters in our own country and free to deal with foreign capital as we think best in the interests of the country.

§26. Need for developing internal capital resources.—It is obvious that the

<sup>1</sup> See the Government of India Act (1935), sections 111-18, N. S. Pardasani, *How India is Governed*, pp. 136-7, G. N. Joshi, *Indian Administration*, pp. 122-3.



greatest advantage will be realized when the country is in a position to satisfy her requirements for new capital almost entirely from internal rather than from external sources. As the External Capital Committee remarked : 'The real solution of the problem of external capital lies in the development of India's own capital resources.' In order to draw out the 'vast store of dormant capital' in existence in India, 'banking facilities must be increased and extended'.<sup>1</sup> The important subject of the development and reorganization of Indian banking, as also the recommendations of the Central Banking Enquiry Committee and the Provincial Banking Enquiry Committees, are pursued in a separate chapter on Banking.<sup>2</sup>

The replacement of foreign by indigenous capital implies that industries should not only be financed by Indians but also owned and managed by Indians. This latter point, however, has already been dealt with earlier in the chapter.

<sup>1</sup> See *External Capital Committee Report*, Summary of Recommendations.

<sup>2</sup> See vol. II, ch. xi.

## APPENDIX

### PARTITION AND AFTER<sup>1</sup>

§1. Population.—The following table, based on the figures of the 1941 census, shows the area, in thousands of square miles, and population, in millions, of the two Dominions and of the States outside them :

	Popula- tion (millions)	Per cent of total	Area (1000 sq. mi.)	Per cent of total area	Density
<b>INDIAN UNION</b>					
Provinces ...	230	57.8	627	40.1	368
States ...	68	17.6	418	26.5	167
Total ...	298	75.4	1,045	66.6	299
<b>PAKISTAN</b>					
Provinces ...	66	16.9	236	14.9	280
States ...	5	2.6	129	8.1	37
Total ...	71	19.5	365	23.0	195
Hyderabad ...	16	4.1	82	5.2	198
Kashmir ...	4	1.0	82	5.2	
Grand total ...	389	100	1,574	100	241

Nearly 64 per cent of the total Pakistan population is concentrated in Eastern Pakistan, which accounts for only 25 per cent of the total area of Pakistan. The density of population in Eastern Pakistan is as high as 718 as against 136 in Western Pakistan.

The percentage of urban population is 14 in India and 8 in Pakistan.

It is officially estimated that, as a result of communal disturbances on the eve of the partition, 5 million Muslims migrated from India to Pakistan and there was an influx of about the same number of non-Muslims into India. This still leaves about 32 million Muslims in India and 15 million non-Muslims in Pakistan.

§2. Agriculture.—The following figures relating to the year 1938–9 show that nearly half of the total area is uncultivated in both Dominions, the proportion of cultivated land being a little higher in India than in Pakistan. Per capita sown area in India is 0.75 acre and in Pakistan 0.64 acre. 15 per cent of the total area is under forest in India as against 5

<sup>1</sup> This appendix is largely based on Professor C. N. Vakil's timely and useful publication, *Economic Consequences of the Partition*, second edition.

per cent in Pakistan. Of the uncultivated area Pakistan has a larger proportion than India not available for cultivation.

Classification of area (in million acres)	Indian Union		Pakistan		Hydera- bad	Kash- mir	Total
	area	%	area	%	area	area	area
Net sown ...	204	42	43	37	27	2	277
Current fallow ...	47	9	11	9	3	0.3	61
Total cultivated ...	251	51	54	46	30	2.3	338
Forests ...	74	15	5	5	6	2	87
Not available for culti- vation ...	80	16	30	26	10	3	123
Other uncultivated ...	86	18	26	23	2	1	115
Total uncultivated ...	240	49.1	61	54	18	6	325
Grand total ...	491	100	115	100	48	8.3	663

251 million acres or 18 per cent of the cultivated area is under irrigation in India, while 54 million acres or 36 per cent of the cultivated area is under irrigation in Pakistan. Most of the irrigation works, however, are located in Pakistan.

An area equal to 183.6 million acres or 78 per cent in India and 37.7 million acres or 77 per cent in Pakistan is under food crops. Per capita acreage under food crops is 0.61 in India and 0.54 in Pakistan. But owing to irrigation facilities, the yield of crops per acre is higher in Pakistan with greater scope for reaping more than one crop in the year. Pakistan thus enjoys a surplus, while India has a deficit of from 3 to 5 million tons of food-grains.

India has to import cotton and jute from Pakistan. On the other hand groundnuts, coffee and tea are entirely Indian products for which Pakistan is dependent on India.

The position of Pakistan, in respect of milk is more favourable than that of India. Pakistan also has a more abundant supply of hides.

§3. Minerals.—It is needless to point out that annual production in India is at present far superior to that of Pakistan in respect of minerals.

Mineral	India (1944)	Pakistan (1944)
Coal (lakh tons) ...	248	3
Iron (lakh tons) ...	23	—
Copper (lakh tons) ...	3.3	—
Manganese (lakh tons) ...	3.7	—
Bauxite (tons) ...	12,135	—
Petroleum (million gallons) ...	66	21
Mica (cwts) ...	139,000	—
Chromite (thousand tons) ...	21	19
Gypsum (thousand tons) ...	26	58

§4. Industry and Trade.—Dislocation of the industrial structure may be said to be one of the major evil consequences of partition. Artisans and skilled workers who were mostly Muslims migrated to Pakistan leaving the factories in East Punjab almost without labour. Hindu capitalists fled to India leaving factories in West Pakistan without managerial skill. While cotton and jute are grown mostly in Pakistan, the cotton and jute mills are mostly located in India.

An idea of the distribution of various industries can be had from the figures given below relating to 1942 :

Industries	India	Pakistan
Cotton mills ... ..	357	15
Jute mills ... ..	111	—
Sugar mills ... ..	176	15
Iron and steel ... ..	36	—
Cement factories ... ..	57	8
Paper mills ... ..	19	—
Glass factories ... ..	112	5

The total number of cotton mills in 1943-4 was 410, out of which only 15 were located in Pakistan. The textile and jute mills in India largely depend upon Pakistan for their raw material.

India's share of the industrial establishments in undivided India is 86 per cent and of persons employed in industries more than 90 per cent are to be found in India. Pakistan lacks many major industries, and in average size those she has are inferior to India's. There is also much greater diversity of industrial development in the Indian Union than in Pakistan.

Though Pakistan has a few cement factories, they are dependent on India for coal and gunny-bags and her sugar factories have not developed *pari passu* with the area under sugar-cane.

The most serious drawback of Pakistan's industrial structure is the total absence of iron and steel factories.

Pakistan is more preponderantly agricultural than the Indian Union. While undivided India had a monopoly of the export trade in raw jute, the Indian Union is now the world's heaviest importer of that commodity which has to come to her from Pakistan. Similarly the Indian Union has now to import about one million bales of cotton (mostly medium- and long-staple) from Pakistan which includes the most important cotton-producing areas of undivided India. The Indian Union has an unfavourable balance of trade with Pakistan as well as with the outside world. One of the difficult problems for the Indian Union, and to a lesser extent for Pakistan, is that of bridging the gap between exports and imports by an increase in the former and a decrease in the latter or both.

§5. Transport.—(i) *Railways*. The total capital at charge of the Indian railways is Rs. 702 crores as against Rs. 136 crores of the Pakistan railways. Of the total route mileage of undivided India, 77 per cent is in the Indian

Union. The following table shows the division of railways according to mileage :

Indian Union				Miles	Pakistan		Miles
1. N.-W. Railway (East Punjab comm. lines) ...				1,610	1. N.-W. Railway Comm. lines Strategic		3,110 1,817
2. Assam Railway Broad gauge ...				376	2. Assam Railway Broad gauge		503
Metre gauge ...				1,399	Metre gauge		999
3. E.I.R. B.B.C.I. B.N.R. G.I.P. M.&S.M. O.T.R. S.I.R. Bezwada & Dhor Kurnool				21,180	3. Jodhpur-Hyderabad Railway		319
Total ...				24,565			6,748

The Indian Union is relieved of the burden of the strategic lines of the N.-W.F. Railways which were responsible for a total loss of Rs. 42 crores during the period from 1924 to 1946. Acceptance of the scales of pay as recommended by the Central Pay Commission and the rising prices of stores and fuel are however factors which will to some extent offset this relief.

The movement of refugees severely dislocated the railway finances as well as the general administration in both the Dominions. During a period of two and a half months, the railways were called upon to move as many as three million refugees. This strain was too much for the engines and bogies that were already worn out and had long needed replacement.

The future of Indian railways, however, is fairly bright and their position is steadily improving. The following table reveals the enormous rise of railway income and expenditure since the Partition :

	Undivided India 1939-40	Indian Union 1948-9	Pakistan 1948-9 <sup>1</sup>
Gross revenues ...	102.73	190	36.89
Total working expenses ...	69.93	159.78	37.15
Net miscellaneous revenue ...	0.64	2.16	—
Net revenue ...	33.44	32.38	—
Interest charges ...	29.11	22.53	—
Surplus profit ...	4.33	9.85	—

The N.-W. Railway and the Assam-Bengal Railway which have been split up between the two Dominions earned a profit appreciably smaller in proportion to that earned by the other railways. This implies that Pakistan will probably have a deficit railway budget, although it has not accepted the pay scales of the Central Pay Commission.

<sup>1</sup> The figures for Pakistan are inclusive of revenue under Posts and Telegraphs.

Imports of spare parts from the United Kingdom and the manufacture of some of them in her own ordnance factories, the reduction of delay in the turn-round of wagons and engines, and drastic measures to check ticketless travel have greatly helped to improve the position of railways in India.

(ii) *Shipping*. Undivided India had only 150,000 tons of shipping which amounted to 0.24 per cent of the world total. Out of this the share of Pakistan amounts to not more than 40,000 tons.

(iii) *Roads*. Out of a total—metalled and unmetalled—mileage of 315,000, India has 265,000 and Pakistan 50,000 miles of roads.

§6. *Currency and Exchange*.—The following were the main provisions of the Pakistan Monetary System and Reserve Bank Order, 1947.

(i) Indian notes were to continue to be legal tender in Pakistan till 30 September 1948.

(ii) On 30 September 1948, the Reserve Bank of India was to retire as a note-issuing authority for Pakistan. Since that date Pakistan has had unfettered authority to make her own currency arrangements.

(iii) After 1 April 1948, the Reserve Bank might issue 'Pakistan notes'.

(iv) Assets equal in value to Pakistan notes were to be transferred by the Issue Department of the Reserve Bank of India to the Government of Pakistan soon after the 30 September 1948.

(v) Pakistan is to accept Indian notes from the Reserve Bank of India in certain circumstances until 1 October 1949, but they are to be replaced by Pakistan notes as and when required.

(vi) For one year after the issue of Pakistan coins the Indian rupee and subsidiary coins will remain legal tender in Pakistan.

Accordingly Pakistan notes and Pakistan currency have been issued from the dates specified.

Pakistan has had authority to declare the par value of her currency from October 1948. Considering the position of Pakistan in respect of foreign trade, it is surmised that Pakistan currency will remain on a par with the Indian rupee.

§7. *Banking*.—The number of banking concerns in the two Dominions immediately after the Partition is given in the table below :

	India	Pakistan
<b>SCHEDULED BANKS :</b>		
Head Offices ... ..	85	13
Branch Offices ... ..	2,428	620
<b>Total ... ..</b>	<b>2,513</b>	<b>633</b>
<b>NON-SCHEDULED BANKS :</b>		
Head Offices ... ..	462	157
Branch Offices ... ..	1,175	411
<b>Total ... ..</b>	<b>1,637</b>	<b>568</b>
<b>Grand Total ... ..</b>	<b>4,150</b>	<b>1,201</b>

Pakistan's share of banks was in proportion to population. But after the Partition many banks and indigenous bankers migrated from Pakistan to India. As might be expected, the result has been a considerable decline of banking business in Pakistan. Bank advances and bills discounted have declined and time-deposits have dwindled from about Rs. 39 crores to about Rs. 18 crores. The wholesale flight of Hindu capitalists with their funds and valuables from Pakistan naturally aggravated the situation.

The West Punjab Government floated a Finance Corporation with a capital of Rs. 1 crore mainly to finance the cotton and wheat trade. Before the Partition this finance was provided by Hindu capitalists.

As mentioned in the Pakistan Monetary System and Reserve Bank Order, 1947, a Central Pakistan Bank, called 'The State Bank of Pakistan', has been instituted since 1 July 1948 to manage the paper-currency, public debt and exchange of the Dominion. The structure of the Bank is almost the same as that of the Reserve Bank of India.

§8. Public Finance.—Estimates of central revenues of both the Dominions are given below in lakhs of rupees, based on figures for 1944-5 :

Heads of Revenue	Share of India	Share of Pakistan	Total
1. Customs ... ..	29,32	8,97	38,29
2. Central excise duties ... ..	32,87	5,27	38,14
3. Corporation tax and taxes on income :			
Ordinary ... ..	52,95	4,43	57,38
Surcharge ... ..	32,73	2,84	35,57
4. Business profits tax ... ..	11,00	1,00	12,00
5. Civil administration ... ..	1,91	57	2,48
6. Currency and mint ... ..	9,60	2,86	12,46
7. Civil works ... ..	59	18	77
8. Interest ... ..	1,37	41	1,78
9. Opium ... ..	1,04	—	1,04
10. Receipts from States ... ..	46	14	60
11. Receipts in connexion with war ... ..	14,32	4,28	18,60
12. Net receipts from Posts and Telegraphs ... ..	7,89	2,36	10,25
13. Net receipts from railways ... ..	24,64	7,36	32,00
14. Deduct share of income-tax distributed to provinces ... ..	—21,25	—5,31	—26,56
Totals ... ..	200,44	35,29	235,63

These estimates proved substantially correct as revealed by the budget figures for 1948-9. The estimates in respect of provinces are given below in lakhs of rupees, based on figures for 1944-5 :

## PAKISTAN PROVINCES :

West Punjab	...	...	...	14,95
Sind	...	...	...	8,80
N.-W.F.P.	...	...	...	1,84
East Bengal	...	...	...	18,84
Sylhet	...	...	...	1,00
Baluchistan	...	...	...	20

## INDIAN PROVINCES:

East Punjab	...	...	...	8,06
U. P.	...	...	...	27,47
Bihar	...	...	...	12,75
Orissa	...	...	...	3,18
Assam	...	...	...	4,92
C.P. & Berar	...	...	...	9,62
Bombay	...	...	...	33,67
Madras	...	...	...	41,24
West Bengal	...	...	...	14,78

Partition has brought with it an enormous increase of expenditure for both the Dominions. For the suppression of communal riots and maintaining law and order in general it has become necessary to strengthen the defence and police services.

Another incidental item of heavy expenditure is in connexion with the relief and rehabilitation of refugees. This is likely to continue for a few years to come.

One of the results of widespread disturbances was incalculable damage to food crops which greatly worsened the food situation in the country. The expenditure on food subsidies has consequently risen steeply.

The extra burden, mainly due to an increase of unproductive expenditure, besides aggravating inflationary tendencies, has necessitated the postponement of many nation-building schemes that had been projected.

Payment of overseas pensions and interest on pre-partition loans amounting to about Rs. 68.5 crores a year is to be the sole responsibility of the Indian Dominion for a few years to come.

§9. The division of assets and liabilities.—A financial agreement, laying down broad principles for the distribution of assets and liabilities between the two Dominions, was signed on 12 December 1947.

On 1 March 1947, the amount of interest-yielding assets was Rs. 1,000 crores, the uncovered debt, Rs. 867 crores, and cash and securities held on the Treasury Account, Rs. 514 crores.

The division under the agreement is approximately as follows :

				India (Rs. crores)	Pakistan (Rs. crores)
Interest-yielding assets	...	...	...	835	165
Cash balance	...	...	...	325	75



Of the debt of Rs. 867 crores, Pakistan's share comes to 17.5 per cent. One-third of the military stores went to Pakistan which was also granted an advance of Rs. 6 crores to enable it to work its ordnance factories.

The interest on securities both in India and in Pakistan will be met by the Indian Government alone for some time, after which Pakistan will be required to pay its own share. It is to discharge its indebtedness to India by annual payments extending over a period of 50 years, beginning from the fifth year of partition. India's liability to holders of securities in Pakistan will be about Rs. 7 crores.

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the matter was left to the option of the society. A rural society was to carry all its profits to an inalienable reserve fund, unless otherwise directed by the local Government in special cases. In the case of urban societies, only one-fourth of the profits was to be carried to the reserve fund. Certain limits were placed on the size of the share capital where this was raised; no member was to hold more than one-fifth of the shares; the total value of an individual member's shares could not exceed Rs. 1,000; nor could he have more than one vote. The societies were to raise the required working capital by entrance fees, shares, deposits from the members and loans from outside, and were to distribute the funds so raised only among members. A loan from one society to another was to be subject to the permission of the Registrar. Registrars were to be appointed in all provinces to exercise supervision over the organization and control the movement. The Government reserved certain powers for themselves such as (i) compulsory inspection and audit, (ii) compulsory dissolution of a society, if necessary, by the Registrar, subject to an appeal to the provincial Government, and (iii) wide rule-making power.

The movement was assured generally of Government sympathy, assistance and guidance. The two cardinal objects which the Government kept in view in regard to the above provisions were simplicity and elasticity: simplicity so as to avoid elaborate schemes beyond the comprehension of the ryots, and elasticity to leave full scope for the development of the movement on lines suitable to each province, subject only to certain broad general principles incorporated in the Act.<sup>1</sup> To encourage the movement the Government offered certain concessions and privileges to the societies registered under the Act, such as exemption from income-tax, stamp duties and registration fees; the grant of the benefits of a corporate body; priority over the ordinary creditors of a member next to land revenue; free Government audit, etc. The Government also promised the grant of loans to societies free of interest for the first three years, subject to the condition that the loan was not to exceed Rs. 2,000, and was to be granted only up to an equal amount raised independently by the society concerned.

§5. Review of progress from 1904 to 1912.—The Provincial Governments lost no time in giving effect to the new scheme of co-operation under the guidance of the Registrars who were appointed for the purpose. In every province, the new doctrines struck root and the progress made was remarkable, as will be seen from the table on p. 277.

The movement soon outgrew the best expectations of its promoters, at least so far as the number of societies started was concerned, and in two directions especially the need for a change in the Act of 1904 was felt. The credit societies established under this Act had paved the way for co-operative societies for distribution and purposes other than credit, for which as yet there was no legislative protection. At the same time, the

<sup>1</sup> See Sir Denzil Ibbetson's explanatory memorandum accompanying the Act of 1904.

need for a free supply of capital and an improved system of supervision had led to the formation of various central agencies, afterwards known as unions and central banks, to finance and control the primary credit societies, and these also were not recognized by the Act of 1904.<sup>1</sup> Moreover, the classification of societies into urban and rural societies was found to be unscientific and inconvenient. Lastly, the prohibition regarding distribution of profits in rural unlimited liability societies was a hardship, especially where, as in the Punjab and Madras, share capital had become important. On a re-examination of the whole situation the Government of India decided to pass entirely fresh legislation calculated to remove these deficiencies of the Act of 1904.

Year	Number of societies	Number of members of primary societies	Amount of working capital Rs.
1906-7	843	90,844	23,71,683
1907-8	1,357	149,160	44,14,086
1908-9	1,963	180,338	82,32,225
1909-10	3,423	224,397	1,24,68,312
1910-11	5,321	305,058	2,04,05,800
1911-12	8,177	403,318	3,35,74,162

§6. The Co-operative Societies Act, 1912.—The Act of 1912 recognized non-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc. It also recognized three kinds of central societies as distinguished from primary societies, namely, (i) unions, consisting of primary societies for mutual control and audit, (ii) central banks, consisting partly of societies and partly of individuals and (iii) provincial banks, consisting of individuals.

In view of the importance of share capital in certain provinces like Madras, the Punjab and Burma, permission was given to declare dividends on shares in unlimited liability societies, subject to the general or special permission of the provincial Government concerned. Express permission was also given to all societies to set apart a portion of their profits, not exceeding 10 per cent, for educational and charitable purposes, after one-fourth of the profits had been carried to the reserve fund. The new Act superseded the earlier distinction between rural and urban societies by a more scientific one between limited and unlimited liability societies. The Act laid down that the liability of a society of which the members are registered societies shall be limited, while that of a society of which the object is the provision of credit to its members and of which the majority of members are cultivators shall be unlimited, and that in all other cases it shall be optional.

§7. Progress of the movement subsequent to the Act of 1912.—The immediate effect of the new Act was to give a fresh impetus to the co-operative movement. As will be seen from the following statement, the number

<sup>1</sup> See MacLagan Committee Report, par. 5.

of societies, their members and the amount of the working capital went on increasing steadily; and the expansion of the movement was rapid during the years following the war of 1914-18 until the depression, after which the pace slackened owing to the policy of 'consolidation and rectification' adopted by various provinces in consequence of the difficulties experienced by co-operative societies.<sup>1</sup>

	Number of societies in thousands	Number of members in lakhs	Working capital in Rs. crores
Average for 5 years from 1910-11 to 1914-15	12	5.5	5.48
Average for 5 years from 1915-16 to 1919-20	28	11.3	15.18
Average for 5 years from 1920-1 to 1924-5	58	21.5	36.36
Average for 5 years from 1924-5 to 1929-30	94	36.9	74.89
Average for 5 years from 1930-1 to 1934-5	1,06	43.2	94.61
1937-8 ... ..	1,11	48.5	103.02
1938-9 ... ..	1,22	53.7	106.56
1939-40 ... ..	1,37	60.8	107.10

The progress of the movement is uneven in the different provinces and States and it has reached only a small part of the population. Co-operation has developed more rapidly in ryotwari provinces because here the agriculturist has mortgage rights in his land and can therefore offer real security. In the landlord group of provinces he can offer only personal security.

New types of societies for the sale of produce, cattle insurance, milk supply, yarn, silk and manure purchase, retailing of farm implements and common necessities were started, and most of them soon appeared to be prospering. The number of central societies was increasing rapidly and the movement was apparently fast winning the confidence of the public. In 1914 the Government of India reviewed the whole situation and issued a comprehensive resolution laying down in general terms the practical lessons that might be drawn from experience. The sums involved in the movement were becoming large, the arrangements for financial management in stages above that of the primary society were getting complicated, and the principles for the conduct of inspection and audit were in need of more precise enunciation. Before taking the responsibility of fostering and supporting further growth, the Government wished to make sure that the movement was proceeding on economically and financially sound lines.<sup>2</sup> It was in these circumstances that the MacLagan Committee was appointed in October 1914 to inquire into and report on this aspect of the question. The movement entered on its third stage (the first two being marked by the Acts of 1904 and 1912 respectively) of development after the publication (1915) of the classic Report of this

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), p. 4 (published by the Reserve Bank of India).

<sup>2</sup> See *MacLagan Committee Report*, par. 6.

committee, which made far-reaching constructive proposals for future development. The movement elicited a good deal of non-official support and showed considerable progress on lines other than rural credit. Under the Reforms Act of 1919, co-operation became a provincial transferred subject and was placed under the care of a Minister, and this may be regarded as the fourth stage of the progress of the movement. During the earlier years of the working of the reformed constitution several provinces made progress on lines most suitable to their local needs, and Bombay gave a lead to other provinces by passing a separate Co-operative Societies Act for itself in 1925. The Bombay Act, though mainly based upon the framework of the Act of 1912, marked an improvement over it in the following directions:

(i) A distinct classification of the various societies according to objects, finance and methods of working; (ii) the creation of a first charge of the society against crops raised by a member with the loan taken from the society; (iii) improvement of the procedure for the liquidation of cancelled societies; (iv) extension of summary powers of recovery through the awards of arbitrators; and (v) provision of penalties against specified offences.<sup>1</sup> The lead thus given by Bombay was followed up by other provinces, such as Madras (1932), Bihar and Orissa (1935), Coorg (1937) and Bengal (1941).

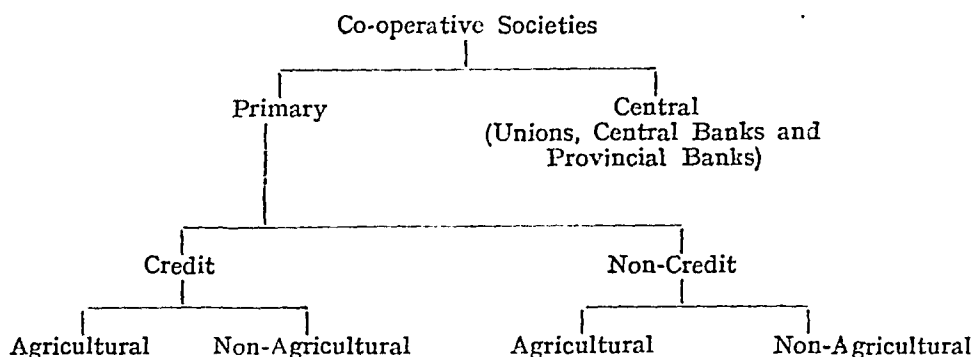
Though since 1921 there has been a large addition to the number of societies all over India, later efforts, especially since the depression of the thirties which brought about a crisis in co-operation, were directed more to the rehabilitation, reconstruction and reorganization of existing societies than to further rapid expansion. The establishment of the Agricultural Credit Department of the Reserve Bank of India (see §22 below), the village uplift campaign in several provinces and the assumption of office by Congress Ministries in eight provinces in 1937, are some of the more important developments affecting the recent history of the co-operative movement in India.

§8. Co-operative movement during the war of 1939-45.—The outbreak of war in 1939 found the co-operative movement struggling to find a new equilibrium and a basis for further advance. The earlier expectations of prompt liquidation of overdues and the strengthening of the co-operative movement were not fulfilled owing to the erratic course of prices in general and agricultural prices in particular. The war also made it somewhat difficult to ensure a continuous and adequate supply of cheap long-term loanable resources. Besides, co-operative banking in common with joint-stock banks had to face withdrawals of deposits at the beginning of the war, and again in May-June 1940. But confidence was soon restored. Another noteworthy effect of the war was the stimulus it imparted to the setting up of supply societies or consumers' stores in some provinces as a safeguard against profiteering as well as some stimulus to the organiza-

<sup>1</sup> See D. G. Khandekar, *The Bombay Co-operative Societies Act, 1925*, p. 3.

tion of co-operative marketing to assure the benefit of higher prices to the producer. Finally the war gave a fillip to numerous small industries such as woollen and cotton hand-loom weaving,<sup>1</sup> and naturally enough the Co-operative Departments, assisted by grants from the Government of India, have shown greater interest in the development of small industries and encouraged them with advice and guidance.<sup>2</sup>

§9. Classification of co-operative societies.—We now proceed to study in more detail the main features of the co-operative movement. The following classification of co-operative societies will give some idea of the complex co-operative structure that has been built up in India.



Some idea of the relative importance of the main classes of societies may be formed from the following table :<sup>3</sup>

Type	Number of societies		Number of members	
	1906-7 to 1909-10 (average)	1942-3	1906-7 to 1909-10 (average)	1942-3
Central (including provincial and central banks and banking unions)	17	599	1,987	214,882
Supervising and guaranteeing unions (including re-insurance societies) ..		437		28,459
Agricultural (including cattle insurance societies) .. .. .	1,713	126,305	107,643	4,613,261
Non-agricultural .. .. .	196	18,819	54,267	2,298,743
Total ..	1,926	146,160	161,910	6,912,004
			Total number of members of primary societies	

The official classification of co-operative societies adopted by the provinces on the suggestion of the International Institute of Agriculture at

<sup>1</sup> See ch. xiii, also vol. II, ch. ii.

<sup>2</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 2-3, *Sixth Report of the Bombay Provincial Co-operative Land Mortgage Bank* (1941) and article on 'Effect of War on Co-operation in Bombay' by V. L. Mehta in *The Indian Co-operative Review*, January-March 1940.

<sup>3</sup> *Statistical Statements Relating to the Co-operative Movement in India for the years 1941-42 and 1942-43*, pp. 21-2.

Rome is : (i) credit, (ii) purchase, or purchase and sale, (iii) production, (iv) production and sale, (v) insurance, and (vi) others.

The following statistics give some idea of the progress made by various types of (i) agricultural and (ii) non-agricultural societies up to the years 1942-3.

Credit	Purchase and purchase and sale	Production	Production and sale	Other forms	Total number of societies	Number of members	Working capital in Rs.
<i>Agricultural societies</i>							
110,635	626	1,864	7,968	4,941	126,034	4,493,479	29,08,46,991
<i>Non-agricultural societies</i>							
7,093	2,225	13	1,649	7,715	18,802	2,245,783	33,94,79,625

This brings out the overwhelming predominance of the credit societies, especially the agricultural credit societies, and the comparatively poor development of other types, though the situation in this respect is gradually improving. This classification is somewhat defective in so far as the returns based on it do not give an adequate idea of the true development of co-operation in India in certain important directions. For instance, many a credit society in India has tacked on purchase or sale or production or a combination of two or three of these functions to its original business of giving credit.

§10. Primary agricultural credit societies.—Let us now consider the different types of co-operative societies in India, laying special emphasis on rural credit societies, which represent the great bulk of the total number of societies. Beginning with a typical primary agricultural credit society we may consider it under various headings as follows :

(i) *Size*.—Any 10 persons can apply for the registration of a proposed rural credit society. The maximum strength of the society should preferably not exceed 100, because as the number increases the efficiency of management and supervision, as also the quality of training received by the members, suffers.

(ii) *The area of operation*.—The Raiffeisen rule is that there should be as far as possible one society for one village, which is usually the case. This is necessary to ensure mutual knowledge and the exercise of mutual control on the part of members. It is noteworthy, however, that the Madras Committee on Co-operation favours the grouping together of small societies and their reorganization so as to extend their area of operations to more than one village, say, over a radius of three to five miles. This plan would make the societies economic units and also enable the co-operative movement to cover the vast rural areas within a reasonable time.<sup>1</sup> The multi-purpose societies in Bombay are being

<sup>1</sup> Report of the Committee on Co-operation in Madras, p. 154.

organized for a group of villages (see §13 below). The extension of the area of operation is closely connected with the suggestion in favour of limited liability which is examined in (iii) below.

(iii) *Liability*.—This is unlimited unless exemption from this rule is permitted by the Government. As the Maclagan Committee explained, unlimited liability means contributory unlimited liability, that is, in the case of default 'where there is a deficit in the engagements of a society to its creditors, this deficit should, after the full payment of shares (if any), be recoverable by a series of *per capita* levies upon the members up to the full extent of their property, direct proceedings by a creditor against individual members being forbidden'.<sup>1</sup> Unlimited liability, it is maintained by its advocates, carries with it a twofold advantage. It exercises an educative influence on the members by stimulating mutual control and supervision, and improves the credit of the society by inspiring confidence among its outside creditors. Opinion, however, is now changing in favour of limited liability. For instance, the Madras Committee on Co-operation (1939-40) expressed the view that unlimited liability has outlived its utility and recommended by majority the adoption of limited liability as the basis of reorganized societies. The Committee pointed out that unlimited liability during recent liquidations had worked harshly for members who were non-borrowers and non-defaulters, and had brought the movement into disrepute; that it kept away the solvent or better class of agriculturists; and that its assumptions of mutual watchfulness and control were not realities of village life today.<sup>2</sup> There is, however, still a considerable body of opinion which favours the retention of unlimited liability on the ground that it is an essential and basic co-operative principle, and that an abrupt change would shake the confidence of the creditor and affect the flow of funds into the movement. On the other hand, as Dr B. V. N. Naidu observed, 'the urban co-operative societies, which have been worked on the basis of limited liability societies, have not ceased to be co-operative and there is no reason why the principle should not be adopted for the larger (multi-purpose) rural societies proposed to be brought into existence'.<sup>3</sup>

(iv) *The Management*.—This is democratic and honorary. It is entrusted to two bodies, namely, a general committee consisting of all the members and a managing committee which is a smaller body of from five to nine members chosen from among the members of the former body at its annual general meeting. The general committee elects members of the managing committee, appoints a paid secretary (who must not be a member), adopts the annual balance-sheet submitted by the managing committee, considers the orders and reports of the registrar and auditors, expels members if necessary, fixes the maximum credit of the society as

<sup>1</sup> *Maclagan Committee Report*, par. 47.

<sup>2</sup> *Report of the Committee on Co-operation in Madras*, par. 165.

<sup>3</sup> See Presidential Address by B. V. N. Naidu at the twenty-fourth Madras Provincial Co-operative Conference (1941); also §13 below.



a whole and of the individual member separately, and amends the by-laws of the society. The managing committee is responsible for the routine and the executive business of the society. It admits new members, disposes of loan applications made by members, recovers arrears due from members and exercises supervision over them, raises funds for the society and inspects the accounts maintained by the secretary.

(v) *Working capital.*—The sources of this may be divided into two, internal and external. The internal sources consist of entrance fees paid by members, deposits by members, share capital if any, and surplus assets in the reserve fund of the society. Entrance fees are necessary to cover preliminary expenses and serve the useful purpose of bringing home to members that the privilege of membership implies sacrifice. Share capital plays only a small part, except in some provinces like the Punjab, Madras, and the United Provinces. Recently, the instalment share system has been introduced in the Bombay province, especially in the canal areas, and it is welcome as a 'second line of defence' and as 'buttressing the unlimited liability of members'. It is generally defended on the ground that it helps a co-operative body in the speedy acquisition of a substantial permanent capital of its own. But on the whole, this object is best fulfilled by forming a substantial reserve fund fed by as wide a margin between the borrowing and lending rates as is consistent with the attainment of financial self-sufficiency on the one hand, and the provision of cheap credit on the other. A fairly wide margin is possible because lending rates are generally very high in India. Too low a rate of interest is also to be deprecated because it may tempt the borrowing members to re-lend. In the provinces mentioned above, members of rural credit societies have shown a preference for share capital, so as to enable them to have their own capital. There should be no objection to this, provided the shares do not keep out poor persons and do not lead to dividend-hunting as in an ordinary joint-stock company; and as a matter of fact, the resort to share capital is often being found necessary to lessen the dependence on outside agencies. Deposits raised locally constitute a highly desirable method of raising the capital required by a rural credit society because they 'imply thrift in the village, form a good lying or reserve money, and they tend to interest in the management of the society a useful body of men who stand as sentries over their own deposits'.<sup>1</sup> Local deposits, however, form only a small part of the total working capital of rural societies in India, in striking contrast with the Raiffeisen Societies in Germany, which raise the bulk of the funds required by them locally. Attempts are being made everywhere to encourage such deposits, but the response has been small, except in the province of Bombay where deposits by members form about one-eighth of the total working capital. The habit of deposit banking is still in its infancy, especially in rural areas, and money-lending and commerce fetch higher rates of interest than can be

<sup>1</sup> *MacLagan Committee Report*, par. 48.

secured on deposits. In the richer parts of the country the tendency towards the purchase of land or gold and silver still persists largely. The existing village credit societies, instead of consisting of more or less all sections of the population of the village, are very largely made up of the needy section, the well-to-do keeping aloof and playing or trying to play the sahuکار. Further, the average income of the masses is small and leaves hardly any margin for saving. But unless there is a substantial increase in the deposits, co-operation will have failed in one of its objects. The system of compulsory deposits is, however, unsound, and thrift can be better stimulated by the introduction of shares payable by small instalments.

We must now turn to the external sources of capital. These are mainly loans and deposits from other societies, from the Government, and most important of all, from secondary or central financing agencies like the central and provincial co-operative banks which have been found indispensable in every province. The Government have very wisely avoided the policy of doles and have restricted their loans to quite an insignificant amount. Regarding loans from central financing agencies we shall have more to say later on when we deal with the problem of co-operative finance. We need only remark here that the rural credit societies are to-day largely dependent upon such outside loans, shares and deposits contributing only a portion of their total working capital.

The following statement shows the composition of the working capital, in lakhs of rupees, for all India (including the States) in 1944-5 :

	Rs.
Share capital (paid up) .. .. .	20,21
Loans and Deposits held at the end of the year from	
Members .. .. .	18,56
Societies .. .. .	10,82
Provincial and Central Banks .. .. .	23,33
Government .. .. .	1,43
Non-members and other sources .. .. .	41,91
Borrowing of Land Mortgage Banks and Societies .. .. .	7,00
Reserve and other Funds .. .. .	23,34
Total ...	146,60

(vi) *The object of loans.*—Loans are given to members only for three objects : productive purposes, non-productive purposes, and redemption of past debts. Productive loans fall into three classes : short-term loans for current agricultural operations, payment of Government taxes, and long-term loans for permanent improvements on land. Loans for unproductive purposes, such as ceremonial expenses, are theoretically not permissible, but they are necessary to prevent the ryots from falling into the clutches of the money-lenders.<sup>1</sup> It is desirable, however, to inculcate economy as

<sup>1</sup> In Bombay and Madras, a system of normal credit statement has been devised which provides for almost every need of the cultivator, including unproductive expendi-

regards such expenditure by restricting these loans to small sums and to absolutely essential purposes. Turning to the redemption of past debts, the ideal policy should be to enable members to be free from all obligations other than those to their society. There are, however, two limiting considerations which make a wholesale redemption of the debts impracticable and undesirable: impracticable because of the impossibility of raising funds large enough for this purpose in addition to those required for loans to members for other purposes; undesirable because the psychology of a person chronically and heavily in debt, like the average cultivator in India, must be considered. A complete release from the burden of indebtedness effected at one stroke, even assuming such a feat to be possible, would have a distinctly demoralizing influence on the ryot unless positive steps could be taken to prevent recklessness and extravagance. Moreover, the mixing-up of long-term and short-term loans is undesirable from the banking point of view. According to expert co-operative opinion the ordinary village credit society should not venture on long-term loans, which fall within the province of land mortgage banks (see §28 below). The ambitious attempt made by some village societies in the past to redeem members' old debts has resulted in disaster.

(vii) *Repayment of debts.*—As regards the time of repayment, the general rule is that agricultural finance should follow the agricultural cycle of crops which should be an average of good, bad and indifferent seasons. In other words, repayment should be made out of the proceeds of the productive objects for which the loan has been issued; as for unproductive loans, they should be so adjusted to the position of the borrowing member, that by the exercise of thrift it should be possible for him to save enough out of his income to meet the instalments of his loans as they fall due. More should not be lent than can be repaid by fairly easy instalments within a reasonable period. Punctual repayment should be the ideal constantly striven for, and laxity in this respect should not be tolerated. Postponement should be granted only in urgent cases of real distress. Fictitious repayment and frequent and automatic renewals of loans should not be allowed as they do great injury to the interests of the society. The promptness in repayment of loans by members is rightly regarded as one of the most important tests of the success of a co-operative credit society. Judged by this standard it must be said that in India societies have not obtained any very great measure of success. The provincial Banking Enquiry Committees, the Reports of the Reserve Bank on Agricultural Credit and the Review of the co-operative movement in India made by the Reserve Bank in 1941 have especially emphasized the

ture on marriage, etc., and fixes the credit limit of each member in advance of the season and makes arrangements for the necessary finance in time. This system is endorsed by the Central Banking Enquiry Committee (*Report*, par. 174). Loans for unproductive purposes like ceremonies are discouraged and show a downward tendency. *Annual Report on the Working of Co-operative Societies in the Province of Bombay (1939-40)*, par. 16.

feature of overdue loans and their evil effects. There has been an alarming growth of overdues in recent years. The position grew very serious owing to the calamitous drop in agricultural prices and the world depression, which reduced the repaying capacity of the agricultural borrower. The accumulation of heavy overdues and the freezing of the assets of the societies naturally resulted in clogging their business and paralyzed the working of the co-operative movement over large parts of the country, especially in Berar, Bihar, Orissa and Bengal, where the movement nearly collapsed (see §26 below). All precautions to ensure punctual repayment should be taken, such as the fixing of the normal credit of each member, careful selection of borrowers from among the applicants for loans, a proper scrutiny of the purpose of the loan and the repaying capacity of the borrower in dispensing co-operative loans, and effective supervision—by other members and sureties—of the activities of the borrowing members, and so forth. It is also necessary that repayments of loans should not be restricted to the same period for all debtors but should be fixed according to the special needs of individual borrowers.<sup>1</sup>

(viii) *Security*.—The ideal co-operative security is that offered by honesty and character. 'Honesty should be capitalized.' In practice, however, the risk of bad debts may be lessened and the credit of the society as a whole may be improved by asking the borrowing members to furnish sureties, normally from among the members, and accepting as collateral security moveable and immoveable property, though material security is, strictly speaking, inconsistent with the dictates of co-operation. If material security is altogether excluded, there is the danger of its owner pledging it with the money-lender. It has therefore to be tolerated to some extent. Under the law, mortgage security is permitted and power is given to provincial Governments to regulate it for any society or class of societies as may be deemed advisable. In all cases, however, the main security ought to be personal and a general bias against material security should be maintained.

(ix) *Division of profits*.—There are no profits in the ordinary commercial sense to be distributed in a rural credit society, especially if there is no share capital, all profits being credited to the reserve fund. Exception may be made, however, in two cases provided for by the Act of 1912, which allows a certain amount of expenditure from the profits for such objects as education and charity, and the distribution of limited dividends on share capital where there is any. Such expenditure has the additional advantage of arousing interest in the movement. In no case, however, should a co-operative society be allowed to degenerate into a dividend-hunting concern.

(x) *Arbitration*.—Arbitration for settlement of disputes between a society and its members is necessary to avoid the drain on the time, energy and the funds of the society, and to discourage litigation by exempting

<sup>1</sup> See *MacLagan Committee Report*, par. 63; V. L. Mehta, *Studies in Co-operative Finance*, pp. 84-6 and the *Report of the Central Banking Enquiry Committee*, par. 170.

the society from the jurisdiction of the ordinary civil courts and procedure. Such arrangements exist in Bombay and some other provinces.

(xi) *Summary powers*.—The grant of summary powers to societies for the recovery of arrears is most objectionable, militating, as it does, against the basic principle of co-operation. The only weapons of recovery should be the joint liability of members and exercise of moral force apart from the ordinary method of recovery through the civil courts. The grant of summary powers would lead to an injurious relaxation of close mutual vigilance and supervision.

(xii) *Dissolution*.—It is desirable to use the power of dissolving societies sparingly. But the power itself is necessary for the purpose of abolishing such societies as are a blot on the whole co-operative movement and offer no prospect of a useful career.<sup>1</sup> The Act has provided for the exercise of such power by the Registrar after inquiry into the affairs of the society.

The benefits conferred by co-operative societies, their limitations and defects, and the remedies that might be adopted to remove the latter are dealt with later in the chapter (§§26-7).

§11. *Non-agricultural credit societies*.—Speaking about the need for non-agricultural credit societies, the MacLagan Committee observed: 'With rising prices, insufficient and insanitary housing accommodation, wages often held in arrears, and a desire for higher standard of living consequent on the spread of education, industrial difficulties are bound to increase, and we are of opinion that any form of organization, such as co-operative societies, that has a tendency to alleviate these difficulties is worthy of support.'<sup>2</sup> Moreover, the excessively seasonal demand for money by agricultural societies makes it difficult for central banks to employ their capital profitably. Though, at the outset, more attention was paid to the starting of rural credit societies, non-agricultural credit societies of the Schulze-Delitsch type have also made some progress in all the provinces, a development which is in consonance with the policy, recommended by the MacLagan Committee, of abandoning the earlier emphasis on agricultural credit. The following main types of non-credit societies may now be discussed:

(i) *People's banks*.—Urban credit societies of the Luzatti type, meant specially for the benefit of the middle class, serve a useful purpose in making good, at least partially, the deficiency of joint-stock banking facili-

<sup>1</sup> The causes put forward for the failure of societies are various and include a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restriction of loans to a few individuals, dishonesty or incompetence of society officials, bad selection of members, the extension of a society over too large an area, concealment of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the society (*MacLagan Committee Report*, par. 86). See also the *Report of the Central Banking Enquiry Committee*, par. 173, and *Review of the Co-operative Movement in India* (1939-40), pp. 1, 7 and 8.

<sup>2</sup> *MacLagan Committee Report*, par. 15.

ties in India and supplying a training ground for the study of the theory and practice of banking, though they are often not truly co-operative. Urban banking is specially well developed in Bombay and Madras where almost all the important towns are served by such banks. In Bombay their activities are co-ordinated by the Co-operative Banks' Association which has rendered valuable service to the cause of urban banking. The Association, which consists of central and urban banks, was formed in the year 1939-40 on the recommendation of the Joint Re-organization Report. Speaking of the urban credit societies, the Registrar of Co-operative Societies, Bombay, in his *Annual Report* for 1926-7, observed: 'It would be difficult to exaggerate the effect which the urban and people's banks are having on the life of the towns. Local trade is being developed or fostered in areas where otherwise population and industries are dwindling; small artisans and citizens in every walk of life are acquiring the banking habit;<sup>1</sup> and in almost every important town the influential persons of all castes and professions are taking up this side of co-operative activity as one of the main forms of public work.' The urban co-operative societies of Gujarat have organized a supervising union of their own for internal audit.<sup>2</sup>

(ii) *Thrift and life insurance societies*.—An important variant of the urban co-operative society is the thrift society whose object is to promote thrift by collecting regular savings every month for a period of two to four years and investing them to the best advantage. In many societies loans are also advanced. The Punjab has over 1,000 such societies, the bulk of the members being schoolmasters. Madras and, to a limited extent, Bombay have also made some progress in this direction.

Recently life insurance societies have been started in Bombay, Bengal and Madras. The Bombay Co-operative Insurance Society, started in 1930, has made good progress and has recently issued a special scheme, under its rural branch, for the benefit of the members of primary societies. The South Indian Co-operative Insurance Society, Madras, has also made commendable progress.

(iii) *Societies for the employees of large firms and of Government departments*.—The objects of such societies (called Salary Earners' Societies) ought to be mainly the encouragement of thrift and saving and not the wholesale redemption of past debts. The success of these societies, which have made remarkable progress in Bombay, Bengal and to some extent in Madras, is due to the interest taken by the administrative head of the department or office and the facilities that exist for the recovery of the dues through pay sheets. Official tutelage and favouritism are the evils to be guarded against in this class of credit society.

<sup>1</sup> The *Annual Report* (1928-9) for Bombay refers (par. 80) appreciatively to the service being rendered by these societies in popularizing the use of cheques. See also *Report of the Bengal Banking Enquiry Committee*, par. 283.

<sup>2</sup> For an instructive study of the urban banks in India see *The Indian Co-operative Review* (Jan. 1936).

(iv) *Communal societies*.—Credit societies based on communal lines particularly lend themselves to co-operative effort on account of the strength of the communal feeling, which, however, is to be discouraged on wider national grounds. Within certain limits, however, these societies are useful for the educational and economic uplift of backward communities.

(v) *Artisans' societies*.—(See also §15 (i) below.) These correspond in their constitution and business to agricultural credit societies. Their area of operation is small, membership is open only to persons of the same occupation, the share capital is small and funds have to be borrowed from central institutions and other sources. Unlimited liability is therefore essential, though under the law it is optional. The most important of these societies are those established for weavers. The hand-loom weaving industry being even today the most important cottage industry, it needs organization on a co-operative basis and state assistance. In Bombay considerable progress has been achieved in this direction, and direct financial help by the Government to such societies would be thoroughly justified. A few credit societies for other small artisans, such as basket-makers, shoe-makers, blacksmiths, carpenters, etc., have been organized, but the progress made so far has been inconsiderable. The hope may be expressed, however, that co-operation may be used as a lever for the revival of the small industries of India. The small artisan is indeed confronted with the same difficulties as the small farmer in respect of credit and other needs, and a simultaneous organization of both the types of small-scale industry is urgently called for.

(vi) *Societies for factory workers*.—There is an urgent need for credit societies among the mill-hands in such factory towns as Bombay and Calcutta. Their economic and social conditions are far from satisfactory. Low wages, bad housing, high cost of living, exploitation by jobbers, ignorance, illiteracy, heavy indebtedness and intemperance are some of the evils from which they are suffering. These conditions can be largely improved by organizing the wage-earners into co-operative societies. Public-spirited employers of labour have rendered some help to such societies. Apart from providing cheap credit and promoting thrift, these societies also serve as centres for various social and educational activities which react favourably on the efficiency of the workmen. The illiteracy of the worker and his migratory habits are among the major obstacles to the rapid progress of co-operation among mill-hands.

#### THE NON-CREDIT CO-OPERATIVE MOVEMENT

§12. Some general questions.—Before taking up a study of the various types of non-credit societies we may briefly discuss some general questions relating to the subject.

(i) *The recent development of the non-credit movement*.—The forms of co-operative activity that have proved most popular and successful in England are those connected with purchase, production and distribution. But in most Continental countries, these branches of work were not under-

taken until credit societies had been firmly established, and development in India has followed the Continental precedent.<sup>1</sup> The growing demand for non-credit co-operation, which manifested itself soon after the co-operative movement was launched, was a healthy sign of the appreciation of co-operative principles by the people and essential to the balanced development of the economic condition of the country as a whole. The Act of 1912, which recognized non-credit societies, was an effort to meet the demand. The progress made by the non-credit movement, however, has not been uniform in all the provinces. The earlier policy of concentration on rural credit has not yet weakened appreciably, and there have been greater difficulties in the way of non-credit than of credit co-operation. At the same time, the importance of non-credit institutions is now being realized to some extent, as is attested by the establishment of societies for various purposes, such as purchase, sale, production, insurance and housing, in both the agricultural and the non-agricultural spheres. The general organization of agriculture on a co-operative basis, bringing within its scope all the stages of agriculture, is a movement fraught with great possibilities. The benefits from co-operative credit can be fully realized only if the middleman in other spheres is eliminated by the starting of co-operative societies for non-credit purposes as in Denmark.

(ii) *Types of non-credit societies.*—We may divide the non-credit societies into agricultural and non-agricultural, each of which may be further subdivided into several types, such as societies for the purchase of raw materials and implements, sale of produce, production, distribution or consumption, insurance, construction and acquisition of dwelling houses, and miscellaneous.

(iii) *Liability.*—Under the Act of 1912 it is optional for non-credit societies to accept either limited or unlimited liability. The nature of the liability varies according to the needs and circumstances of the different types of societies. For example, agricultural non-credit societies will generally prefer limited liability, as their members are likely to have already pledged themselves to unlimited liability if they happen to be members of a credit society as well. Dairy societies and those of weavers, on the other hand, might find unlimited liability more suitable as their need for external capital is usually great.<sup>2</sup>

(iv) *Dealings with non-members.*—Such dealings, according to strict co-operative theory, are undesirable. In the case of artisans' insurance and building societies, dealings are necessarily confined to members. It is in purchase and sale societies that the question of dealings with non-members arises. If they are allowed, membership is apt to become stagnant, and ordinary commercial profiteering is likely to creep in, and there will also be complaints of unfair competition with private traders as, under the Act, co-operative societies enjoy certain privileges and con-

<sup>1</sup> *MacLagan Committee Report*, par. 8.

<sup>2</sup> See V. L. Mehta and V. Subbaiya, *Co-operation in India*, p. 116.



cessions denied to the ordinary private trader. In certain cases, however, such dealings may be permitted, especially for propagandist purposes, to enable a society not only to manage its affairs with profit and economy but also to demonstrate its utility to non-members so that they also may join.

§13. Single- versus Multiple-purpose society.<sup>1</sup>—Much controversy has centred round the question of single- v. multiple-purpose societies. A separate society for each purpose as in Denmark was until recently advocated in this country, and in a way such a plan appears to be both ideal and businesslike. The chief practical objection to it arises on account of the paucity of the right type of men for the management of several societies in a village. Moreover, the Indian agriculturist does not much relish multiplicity of agencies, being accustomed to deal with the *sahukār* for his various needs such as the supply of credit, purchase, sale etc. Moreover in order to ensure the fullest benefit from the supply of co-operative credit, it is necessary to link it up with purchase and sale and to secure proper co-ordination between them. Expert opinion in recent years has favoured the establishment of multi-purpose societies. The main objects of an agricultural co-operative credit society are to educate its members in the value and use of money and dispense controlled credit to them. In practice, however, it has been found that it is difficult to achieve these objects when credit is divorced from supply and sale.

Although the co-operative movement in India started for very good reasons with small, simple credit societies, there is at present a general and growing feeling that the agricultural credit movement has not yielded results corresponding to the effort made and that the time has arrived when it is desirable and possible to broaden the basis of the primary unit. In other words, the village society should cater for as many needs of its members as possible. This opinion has recently been vigorously championed by the Agricultural Credit Department of the Reserve Bank of India. The Bulletin on Village Banks issued by the Reserve Bank in 1937 advocates the reconstruction of the primary credit society, which is the pivot of the whole co-operative movement, on sound co-operative lines so as to bring the whole life of the village cultivator within its ambit. The policy of establishing multi-purpose societies was endorsed in the Joint Report submitted to the Government of Bombay by the Registrar and Mr V. L. Mehta as the result of an inquiry directed in the Government resolution issued in September 1937. Such societies have been organized in Bombay on a limited liability, at a few suitable centres provided with marketing facilities in each taluka. The area of these societies is restricted to a radius of about five miles from their registered office. The United Provinces have launched a bold experiment of the formation of multi-purpose societies on limited liability basis and there are more than 1,000

<sup>1</sup> See *Co-operative Village Banks* (Bulletin No. 2, pars. 23-4), *Statutory Report on Agricultural Credit* (Reserve Bank of India), par. 18.

such village banks, as they are called, in the province. The Madras Committee on Co-operation strongly favoured the reorganization of the village credit societies on a multi-purpose basis.<sup>1</sup> The Registrars' Conference (1939), which was somewhat sceptical about the new plan, recommended nevertheless that the provinces should experiment with multi-purpose societies and note their results. The idea of a multi-purpose society is thus receiving increasing acceptance. Such societies would supply the normal cultivation needs of their members, such as seed and manure, as well as credit to a limited extent for agricultural needs such as the purchase of bullocks. They would also serve as agencies for the sale of their marketable produce and produce of members of other co-operative societies. As multi-purpose societies develop they should act also as consumers' societies in rural areas.

The main advantages claimed for the multi-purpose society are : greater loyalty and more sustained interest of members, controlled credit, more economical and efficient management assisted by paid employees, economy both of men and resources, and an opportunity to the villages to undertake work of social and economic improvement by co-operation. The multi-purpose societies could be further strengthened if they could affiliate themselves to a Banking Union operating, say over a taluka, on the lines advocated by the Agricultural Credit Department of the Reserve Bank of India (see §18 below). Such a Union could interest itself in the various activities of the primary multi-purpose societies. On the other hand, there are certain defects in multi-purpose societies. Multiplicity of functions with financial responsibility creates the danger that failure in one line might affect other lines too. Again, unlimited liability, which is essential for securing deposits and credit on moderate terms, and ensuring effective mutual supervision by members, cannot be easily fitted in with the non-credit functions of the society.<sup>2</sup> As pointed out above, multi-purpose societies are being organized in some provinces, such as Bombay, Madras, and the United Provinces, on a limited liability basis. It is also doubtful whether suitable men would be available to run comprehensive multi-purpose societies, when there is at present a dearth of men to manage simple credit societies. Finally, the multi-purpose society operating over a group of villages would not ensure the close mutual knowledge so essential for the success of the co-operative idea.<sup>3</sup> These difficulties are real, and cannot be brushed aside lightly. Nevertheless, in the existing circumstances of the rural economy of India, the multi-purpose society appears to deserve a fair trial. The experience of several countries other than Denmark also lends support to the idea of the multiple-purpose society. In Bavaria, Saxony, Belgium, Austria, etc., the credit society or local bank does many other things besides supplying credit. The most

<sup>1</sup> *Report*, par. 160.

<sup>2</sup> *Agricultural Commission Report*, par. 375.

<sup>3</sup> See *The Indian Co-operative Review*, January-March, 1938, article 'Multi-purpose Society', by K. C. Ramakrishnan.

striking feature of Japanese rural co-operation is the very common combination of various branches, purchase, sale and so on, and almost in every instance credit, in one and the same society. Multi-purpose societies; however, are not intended to replace all agricultural credit societies, but rather to supplement them.

§14. Non-credit agricultural movement.—We may now proceed to discuss the progress made by the non-credit movement in India in its two branches, agricultural and non-agricultural. The need for the non-credit agricultural movement is very great, for, as the example of Denmark shows, agriculture can thrive in a country of peasant proprietors only if its operations are organized on a co-operative basis and the middleman is dispensed with, so that all profits may go to the cultivators. Co-operative societies for obtaining implements, machinery, manures and seed of good quality at moderate prices are needed, and a few of them have already been started, as also a certain number of co-operative sale societies.<sup>1</sup> This is, however, an enormous task, and the progress made so far has been slow. Co-operative supply has not made much advance as business is on a small scale and there is an absence of efficient management and adequate staff for supervision.

The principle of co-operative insurance has so far been applied only to insurance of cattle; farm-buildings, crops and haystacks being left untouched. But the Committee on Co-operation in Burma (1929) found that these societies were generally in a deplorable condition in that country. The chief obstacles to success are the social disintegration of the village, prevalence of virulent cattle epidemics like rinderpest, and difficulty of management and finance. The development and extension of co-operative insurance in our agricultural system must, however, be steadily aimed at. Reference may also be made to cattle-breeding societies for improving the quality of cattle and for adequate provision of fodder by way of insurance against famine. These societies have not, in general, made much headway though they have achieved some progress in the Punjab. We have already pointed out the obstacles in the way of scientific cattle-breeding (see ch. viii, §§13-14). A few fencing and crop protection societies have already been started, especially in the southern division of the Bombay province, to protect the crops from the inroads of wild pigs and other pests. A small number of co-operative irrigation societies have been established and they offer a promising solution of the water problem in dry tracts where canal irrigation is expensive or impossible. They have achieved notable success in some districts in Bengal and Madras. There are nine land improvement societies at work in the Bombay province.

Another remarkable instance of co-operative activity, to which allusion has already been made (ch. vii, §8), is the work being done for the

<sup>1</sup> We have already dealt with the co-operative sale societies organized for the marketing of agricultural produce. See ch. viii, §22.

consolidation of holdings in certain Punjab villages. The field of co-operative farming has hardly been touched. It is obvious that the successful introduction of improved husbandry demands joint cultivation on a co-operative basis, as in Italy, so long as agricultural holdings continue to be tiny and scattered.

The consumers' movement, which has achieved such striking progress in England, has made very little headway in India, especially in the rural areas. The domestic needs of the rural community are few, and are met mostly either out of local produce or at village bazaars, and the standard of living is so low that distributive co-operation has hardly any scope, even if we ignore other difficulties regarding management, etc. Hope lies only in the general advance of the rural masses and an improvement in their standard of living. There is great scope for dairy societies to supply pure milk at moderate prices, especially to the towns. There are a few such societies scattered about the country but many more are wanted.

The co-operative movement in Indian agriculture is still in its infancy and there is any amount of highly useful work ready for non-credit agricultural co-operation, which, in Denmark and some other European countries, has equipped the peasant so thoroughly as to enable him to compete on equal terms with the capitalist farmer.<sup>1</sup> As Dr Clouston says: 'The good work done by the cotton sale societies in Bombay, the irrigation and milk societies in Bengal, the co-operative seed societies and dairy societies in the Central Provinces, and the societies for the consolidation of holdings, clearance of silt in canals and sale of farm produce in the Punjab, encourages one to hope that, given the necessary organizing staff, co-operation will play in course of time as great a part in assuring the cultivator of the full return of his labour as it has in providing him with cheap capital.'<sup>2</sup> In order that the Government may help this consummation more effectively, one of the reforms needed is a closer co-ordination of activities between the Co-operative Department on the one hand, and the Agricultural and Veterinary Departments on the other. Indeed, co-operative societies promise to be the best agency for the propagandist activities of the Agricultural and Veterinary Departments. It is only through a wide development of non-credit co-operation that the teaching of the expert can be brought to the masses, who could never be reached individually by any official organization.<sup>3</sup> A movement in this direction has been made in Bombay through the District Village Uplift Committees, Taluka Development Associations and the Provincial Rural Development Board (see also ch. xi). These associations have been doing propaganda for introducing improved methods of agriculture and for improving the breed of cattle and poultry. Several of them are taking part in the rural uplift movement. A few Better Farming Societies have recently been established and it has been suggested that intensive work

<sup>1</sup> See H. D. Irvine, *The Making of Rural Europe*, p. 195.

<sup>2</sup> *Review of Agricultural Operations in India* (1926-7).

<sup>3</sup> *Agricultural Commission Report*, par. 386.

in regard to agricultural and other improvements would be more effectively performed by a Better Farming Society working in a restricted area than by a Taluka Development Association whose activities extend to a whole taluka. Better Farming Societies are also found in the Punjab and Madras. In this connexion mention may be made of what are known as the Better Living Societies. Good work has been done under their auspices as part of the rural reconstruction programme in the United Provinces and the Punjab. These societies were first developed in the Punjab and attention was principally concentrated on the moderation of expenditure on marriage and other ceremonies. With the assistance of these societies roads have been improved, public wells have been dug, tanks have been cleared, dispensaries have been established, schools opened, propaganda for curtailment of ceremonial expenditure has been conducted, village sanitation improved, better seed distributed, better methods of cultivation introduced, and the breed of cattle has been improved. Better Living Societies have made some headway in Bengal also.

§15. Non-credit non-agricultural societies.—Though this movement has not yet gained sufficient strength, some progress has already been made in the different provinces. As the MacLagan Committee found, 'successful attempts have been made to arrange for the purchase of yarn and silk for weavers, cane for basket-makers, timber for carpenters, and implements (sometimes of improved pattern) for several industries, the production and sale of cotton and silk cloth, durries, and furniture. Building societies have been organized. The purchase and sale of most sorts of common necessities is being carried on at various co-operative stores.'<sup>1</sup> We may now discuss the various types of non-credit non-agricultural organizations.

(i) *Artisans' societies for purchase and sale.*—As in the case of the farmer so in that of the artisan, not only credit but also other needs, such as purchase of raw materials and marketing of finished products, must be organized on a co-operative basis for the improvement of the economic condition of our cottage industries. The hand-loom industry offers an excellent field for co-operative organization directed towards the attainment of such objects as wholesale purchase of raw material, the employment of improved looms and implements and the direct sale of cloth to the consumers. The co-operative industrial exhibitions held at various centres give a good idea regarding the range and variety of such co-operative products. In Bombay, the importance of co-operative weaving has been recognized by the Government, who are running a few weaving schools under the supervision of the Co-operative Department. A more notable measure adopted in 1935 in furtherance of the hand-loom industry is the establishment of District Industrial Co-operative Associations at important centres in the province to supply raw materials at reasonable rates and to accept on consignment account against partial payment hand-loom products from weavers and to purchase outright hand-loom products and

<sup>1</sup> MacLagan Committee Report, par. 10.

themselves were not financing bodies. The Maclagan Committee strongly recommended the establishment of a guaranteeing union where there were primary societies and central banks. They considered that it was indispensable where there was only a provincial bank dealing directly with primary societies. The guaranteeing unions started on the lines of those in Burma did not prove a success in Bombay, partly because in most cases the so-called guarantee was nominal and partly because, funds being limited, no competent supervisor could be engaged. The work of the committee was often irregular and inefficient. It was therefore decided to encourage only the supervising unions, as in Madras, covering large areas and in a financial position to provide for efficient supervision.

In 1936 the Government of Bombay launched a new scheme of strengthening the system of supervising unions by insisting on better qualifications for the supervisors and by creating district boards of supervision to ensure proper and efficient working of the unions on the recommendations of the Supervision Committee (1934). These Boards have been given wide powers under the by-laws, the most important of which is the suspension of the Managing Committee of an affiliated society. They are expected also to serve as stabilizing forces in the structure of agricultural co-operation.<sup>1</sup> The inspectors appointed by central banks also assist in the work of supervision.

While the need for better supervision has been recognized by successive committees and commissions, no uniform guidance is available as regards the most suitable agency for undertaking this work, and different provinces have developed different systems of supervision. Broadly speaking, the work of supervision is undertaken either by the Government through the Co-operative Department as in the North-West Frontier Province, or by special types of co-operative supervising institutions as in Bombay, Madras, the Punjab and the Central Provinces, or by both. Generally it is arranged through local supervising unions, district supervising boards or federations, divisional and provincial co-operative institutes, and central financing banks or some combination of these. In Bombay and Madras there are special arrangements for supervision of special types of societies, such as the non-credit and Scheduled Classes societies, by the Departmental staff.

Nowhere has the system of supervision been found to be fully satisfactory. In many provinces the supervision provided is superficial and in several it overlaps with the work of inspection done by the staff of the financing agencies.<sup>2</sup> The co-ordination of different agencies for supervision and inspection is engaging the attention of the Department in Bombay.

In 1937 the Agricultural Credit Department of the Reserve Bank of

<sup>1</sup> *Report of the Supervision Committee (1934) and Registrar's Annual Report (1936-7)*, par. 40.

<sup>2</sup> *Review of the Co-operative Movement in India (1939-40)*, pp. 71-3.

India reported on the Banking Union at Kodinar (Baroda State)<sup>1</sup> and made suggestions about its applicability elsewhere. A Banking Union of that nature, in addition to finance, would take over the functions of the supervising union, and a supervising union which is working satisfactorily and has good primary societies affiliated to it could be considered suitable for conversion into a Banking Union on the lines suggested therein, provided such a Banking Union is able to supplement its resources, if necessary, direct from the apex bank.<sup>2</sup> This proposal has not generally been received with favour in co-operative circles, mainly on the ground that it would not make for economical and efficient working and might not command the confidence necessary to attract adequate deposits.

§19. Central co-operative banks.—Central co-operative banks are in general the higher financing agencies necessary in a country like India where the capital raised locally by the primary societies requires to be largely supplemented from outside and distant money markets. Hence arises the necessity of establishing higher federations, or financing institutions like the central and provincial banks, which will successively connect the primary societies with the most remote towns and which will make their monetary resources available as the working capital of such societies. Such a special co-operative financing mechanism is necessary, first, because rural finance requires large amounts of comparatively long-term capital, and secondly, because the ordinary joint-stock banks carrying on their business only in a few important towns cannot be persuaded to issue loans to distant rural societies of which they know next to nothing, even if they were in a position, which generally they are not, to issue long-term loans to finance agricultural production. The underlying idea of the financial distributory system is that the resources of the society at large should be made available to thousands of small cultivators who need accommodation.

The central bank serves as a balancing centre for adjusting the excesses and deficiencies of the working capital of the primary societies under its jurisdiction. It raises the additional capital required by the primary societies and lends it to them either directly or through guaranteeing unions where these exist. In some cases, the central bank may undertake organization and supervision of societies, specially if, as is usually the case, they are its shareholders. The central bank, however, is essentially a financing agency. Besides financing the affiliated societies, most central (and provincial) banks do other banking business, such as the accepting of deposits of various types, collecting bills, cheques, hundis, dividend warrants and railway receipts; issuing drafts and hundis, safe custody of valuables, purchase and sale of securities, etc.<sup>3</sup> The area of its operation varies widely from a taluka or tahsil in some provinces such as Bengal,

<sup>1</sup> See Nanavati and Anjaria, *The Indian Rural Problem*, pp. 406-10, and Nanavati's 'Note on the Organization of the Kodinar Banking Union'.

<sup>2</sup> *Agricultural Credit Department* (Reserve Bank of India) *Bulletin* No. 1.

<sup>3</sup> *Review of the Co-operative Movement in India* (1939-40), p. 11.

Bihar, Orissa and the Punjab, to a district or several talukas in other provinces such as Bombay, Madras and the Central Provinces. Too small an area leads to unduly heavy cost of management, while too large an area leads to inefficient supervision. In every case, effort must be made to strike the golden mean between the two extremes.

Central banks are broadly of two types: mixed and pure, according to their constitution. Mixed central banks, consisting partly of societies and partly of individuals, offer special facilities to the former regarding share capital and representation on the board of management. Such types of banks are acceptable as a step leading to the realization of the ideal federal type, namely a central bank having a membership confined to societies. The mixed central bank, while enlisting the advice and help of well-to-do expert businessmen and members of the middle classes, safeguards the interests of societies and can itself be transformed into the ideal type of pure central bank in which individual members are completely eliminated. The mixed type is the most suitable under the present circumstances in India, and is favoured in almost all the provinces. The ideal federal type, though theoretically the best, labours under certain handicaps, namely, inability to be entirely self-dependent in the matter of supplying the necessary business ability and failure to interest the middle classes and therefore to attract sufficient resources to finance primary societies. In some provinces such as Bengal and the Punjab, there is a growing number of purely federal central banks generally known as banking unions.

There were in British India and Indian States 599 central banks including Provincial Banks and banking unions with a membership of 215 thousands in 1942-3.<sup>1</sup> As regards the sources of the working capital, though share capital is an important item (about 9 per cent), deposits from individuals and societies constitute the bulk of working capital (about 59 per cent). Loans from provincial banks constitute 14 per cent, and reserve and other funds 14 per cent. In 1944-5, the working capital of central banks stood at Rs. 39.8 crores.

The borrowed funds are about 77 per cent of the working capital.<sup>2</sup> In view of the large deposit liabilities of central banks it is necessary for them not only to have adequate cash reserves or fluid resources, a point on which the MacLagan Committee laid special, and as many would have it, exaggerated emphasis,<sup>3</sup> but also to attract a sufficiency of long-term

<sup>1</sup> *Statistical Statements Relating to the Co-operative Movement in India for the years 1941-2 and 1942-3*, p. iii.

<sup>2</sup> Though the ratio of owned funds to the working capital does not appear to be unsatisfactory, the real position as judged from the composition of the reserves in respect of some central banks may be less satisfactory. The reserve funds are sometimes created without making adequate provision for bad debts and may turn out on examination to be at least partly fictitious. *Review of the Co-operative Movement in India (1939-40)*, p. 11.

<sup>3</sup> See *MacLagan Committee Report*, par. 18. Mehta, op. cit., p. 132; and *Statutory Report on Agricultural Credit* (Reserve Bank of India), par. 22.



deposits. The same point was emphasized in 1937 by the Agricultural Credit Department of the Reserve Bank of India in its Statutory Report on Agricultural Credit and circular letters issued to provincial co-operative banks (see §23 below). Central banks should so adjust their loans to primary societies as to ensure adequate repayment for the return of deposits when they fall due. Almost 90 per cent of the borrowed funds of the central banks are given out in the form of loans. The central banks are thus working on a low scale of fluid resources. Overdues form a fairly large proportion of the outstandings of central banks. Bad debts, in not a few instances, may exceed the owned funds of the central banks. In general, central banks in Bombay, Madras and the Punjab are in a comparatively sound position, but in some of the other provinces, particularly Bengal, Bihar, Orissa and the Central Provinces and Berar, their condition has been disquieting. About ten years ago many central banks in these provinces had to close their doors owing to their inability to meet the withdrawals of deposits. The failure of central banks in these provinces was the result of reckless over-financing of societies, inefficient supervision, and disregard of sound principles of banking in conducting their business, as well as to faulty organization of the primary units.<sup>1</sup>

To impart elasticity to the operations of the banks, provision of facilities such as cash credits and discounting of their co-operative paper is necessary. Owing to their long standing, several central banks now possess sufficient resources to be independent of outside financial assistance, but they all continue credit arrangements, mainly with the provincial banks, on which they rely for emergencies. This brings us to a discussion of the nature and utility of provincial co-operative banks.

§20. Provincial co-operative banks.—To enable them to perform their functions properly in relation to the growing number of co-operative societies, the central banks require the help of a provincial apex bank to co-ordinate and control their working, serve as a clearing house to balance the excesses and deficiencies of their working capital, and act as the financial centre of the whole province. It would also extend to central banks the facilities of cash credit and discounting referred to above. The joint-stock banks cannot be depended upon in this matter as they are unable to accept the particular security offered. The provincial bank is also a useful link between the general money market and the joint-stock banks in the towns on the one hand, and the primary rural societies on the other. In this connexion, reference may be made to an interesting development in Bengal of making the surplus co-operative money accumulated in the provincial bank in the slack season of agriculture available for the needs of outside trade and commerce through the joint-stock banks, to the advantage of both parties. The provincial apex banks should not deal directly with societies except in the case of special types of socie-

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 11-12. For the measures adopted and suggested for the reconstruction of the central banks, see §§26-7.

ties such as land mortgage banks, sale unions, housing societies, etc., but should consolidate and strengthen their position as financing agencies and balancing centres for central banks.<sup>1</sup> Practice in this respect is not, however, uniform. In certain provinces the apex banks do not deal with the primary societies at all, while in certain others (including Bihar, Orissa, Bombay and Mysore) they still continue to finance primary societies in areas where central banks have not come into existence. The provincial bank in Bombay has 31 branches covering the few districts that have no local banks or parts of districts not taken over by local banks for one reason or another.

The constitution of the provincial co-operative banks varies in the different provinces. In Bombay, Sind, Madras, the Central Provinces and Berar, Bihar and Assam, membership is open to individuals as well as to societies, and the Board of Directors consists of representatives of different types of societies as well as of individual members. The inclusion of individuals is necessary at present to ensure the supply of the requisite business knowledge and to tap the deposits in the provincial money market. In the Punjab and Bengal, membership is open to societies only, and the Board of Directors consists exclusively of the representatives of the affiliated central banks, banking unions and other societies. However, in Bengal, the Registrar nominates three directors from non-members.

Provincial apex banks more or less on these lines have been established already in eight provinces: Madras, Bombay, Sind, Bengal, Bihar, the Punjab, the Central Provinces and Assam, and in two of the Indian States, Mysore and Hyderabad. Out of these the Bombay Provincial Bank, started in 1911 as a central bank, is unanimously pronounced to be the most efficient, and its activities are multifarious. There is no form of co-operative development or endeavour, whether of finance, propaganda or supervision, in which it does not take part. The Bank has a solid record of valuable work to its credit since it came into existence and occupies a unique position in the co-operative hierarchy.

The owned funds of provincial banks form less than 20 per cent of the working capital, and borrowed funds (deposits from societies and central banks, from individuals and other sources, and loans from Government) form about 80 per cent. Adequate provision has, however, not always been made for bad debts, and the amount of real surplus assets would accordingly be less than the figure of reserves would suggest. On the whole however the financial position of the provincial banks with some exceptions is much better than that of the central banks. The example and initiative of the provincial banks has been responsible for the increasing application of banking principles to the co-operative movement. Regarding necessity of a cash reserve, and provision of facilities such as cash credit and rediscounting of co-operative paper discounted in the first instance by the provincial bank, the same considerations hold good as in the case

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, par. 159.

of central banks. The suggestions made by the Reserve Bank of India for the reorganization of the Central and Provincial Co-operative Banks, in its Statutory Report on Agricultural Credit, are reviewed in a later section (see §27).

§21. Is an all-India co-operative bank necessary?—The Maclagan Committee recommended that in addition to all the foregoing types of financing agencies, an all-India co-operative bank should be established to provide the provincial banks with facilities for rediscounting so as to give their finance that elasticity without which the stability and progressive development of the movement would be difficult.<sup>1</sup>

Since the Maclagan Committee reported, opinion on the necessity or desirability of an all-India bank has undergone considerable change. The new factors in the situation are the substantial amounts lying unutilized with the provincial banks, most of which hold fluid resources in excess even of the very high standard suggested by the Committee of 1915; the assurance of financial accommodation which many of them have succeeded in obtaining from the Imperial Bank of India or other banks, the fact that co-operation is a provincial subject and the provinces are anxious to retain full liberty to develop along their own lines without being fettered by any external authority such as an all-India bank, and lastly, the introduction of the spontaneous and healthy system of inter-lending which the various provincial banks have developed, being assisted in this matter by the Indian Provincial Co-operative Banks Association. Moreover, now that the Reserve Bank of India has been established, the need for an apex bank for the provincial banks is no longer felt, as the provincial banks are provided by the Reserve Bank with rediscounting and loan facilities. There is no need for an apex bank for the present system (see §§22–3).

§22. The Reserve Bank of India in relation to agricultural (co-operative) finance.—Since the inauguration of the Reserve Bank of India<sup>2</sup> on 1 April 1935, great expectations regarding the financial assistance it can extend to agriculture have been raised in the country.<sup>3</sup> The Bank is allowed to purchase, sell and rediscount agricultural bills and promissory notes endorsed by a scheduled bank or a provincial co-operative bank, drawn for the purpose of financing seasonal agricultural operations, or the marketing of crops, and maturing within nine months. It should be noted that in the case of commercial bills the period allowed is only three months. This is a concession in favour of agriculture, since the cycle of agricultural finance is longer than that of commercial finance. The Reserve Bank is further authorized to make loans or advances for ninety days to provincial co-operative banks and central land mortgage banks declared to be provincial co-operative banks and through them to co-operative

<sup>1</sup> *Report*, pars. 219–29.

<sup>2</sup> The question of the Reserve Bank has been dealt with in vol. II, ch. xi.

<sup>3</sup> See §§17 (2) (b), (4) (a), (c) and (d) of the Reserve Bank of India Act (1934), also the *Statutory Report on Agricultural Credit* (par. 37) issued by the Reserve Bank of India.

central banks and primary land mortgage banks against the security of (i) Government paper or (ii) approved debentures of recognized land mortgage banks, which are declared trustee securities and which are readily marketable. The Bank can extend advances to provincial co-operative banks for ninety days against the security of (i) promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations; (ii) promissory notes of approved co-operative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops; and (iii) promissory notes of provincial co-operative banks supported by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies.

The Reserve Bank established the Agricultural Credit Department in April 1935 as required by the Act, to study all questions of agricultural credit, offer expert advice to the Government and co-operative banks, and to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with provincial co-operative banks and any other bank or organizations engaged in the business of agricultural credit. As required by the Act, the Agricultural Credit Department of the Bank submitted a Report on Agricultural Credit to the Government of India in December 1937. The Department has also issued so far four interesting and instructive Bulletins on (i) the Banking Union at Kodinār (1937), (ii) Co-operative Village Banks (1937), (iii) Recent Developments in the Co-operative Movement in Burma (1938), and (iv) Co-operation in Panjāwar (Punjab) (1939). It also published (1941) a very lucid and critical *Review of the Co-operative Movement in India*, in order to supplement the Statutory Report, analysing the present trends and the progress achieved so far and indicating improvements.<sup>1</sup>

§23. Role of the Reserve Bank in relation to co-operative banks.—In its Report on Agricultural Credit (1937), the Reserve Bank has clarified the provisions of the Act relating to financial assistance to co-operative banks and indicated its attitude towards them. According to the popular view the Reserve Bank should directly undertake the financing of agriculture. According to the orthodox banking view, however, it is neither desirable nor possible for a central bank directly to finance agriculture either for short or long periods, having regard to the risky and unorganized nature of agricultural business carried on by illiterate and small farmers as in India. The decisions of the Reserve Bank of India relating to agricultural finance have been largely influenced by the orthodox view. Moreover, as the Statutory Report points out, the Reserve Bank is entrusted with the cash reserves or the fluid resources against deposits of all the important banks. These form by far the largest portion of its working capital. The idea underlying this arrangement is that the entire pool of these resources

<sup>1</sup> For further particulars, see *Functions and Working of the Reserve Bank of India* (issued by the Reserve Bank in 1941), ch. vi, pp. 66-79.

may be available in times of emergency. It cannot be locked up in forms of business which the scheduled banks themselves cannot undertake. The Bank is thus a Banker's Bank and cannot lend to agriculturists direct or supply normal finance to any of the credit agencies, which should not therefore rely on the Reserve Bank for doing their business. The correct role of the Reserve Bank is to produce monetary conditions under which there would be adequate facilities for all those seeking credit for legitimate purposes or having funds to invest. The Reserve Bank can come into the picture as lender in the last resort, when the ordinary pool of commercial credit appears inadequate to meet the reasonable business requirements of the country. The same basic principles must be followed in the case of the co-operative banks. These, like the commercial banks, must stand on their own legs and obtain normal finance from deposits and cannot expect the Reserve Bank to supply it as the apex bank of the movement. In granting them the financial assistance which it is authorized to grant under its statute, the Reserve Bank must judge for itself the advisability and expediency according to circumstances. All that the Reserve Bank can do is to help the provincial co-operative banks to tide over a temporary shortage of funds. The Reserve Bank is not at present prepared to grant cash credit facilities to co-operative banks, since there is already provision under the Act for the grant of advances against Government securities to them. It may, however, be urged that the grant of cash credit facilities to provincial co-operative banks is essential to impart elasticity to co-operative finance and keep down the lending rates of co-operative banks.

The Reserve Bank from time to time issues instructions and circular letters to co-operative banks indicating criteria of sound banking, e.g. in May 1938 and June 1939 when *inter alia* it advised the provincial co-operative banks to maintain liquid resources consisting of cash balances with bankers and Government securities which should be at least 40 per cent of their liabilities, and to confine themselves to short-term loans. One of the conditions for obtaining financial accommodation from the Reserve Bank is that a provincial co-operative bank should maintain with the bank cash balances the amount of which should not be less than  $2\frac{1}{2}$  per cent of the demand liabilities and 1 per cent of the time liabilities of such a bank and that it should submit to the Bank periodical statements prescribed for the purpose.<sup>1</sup> Only two provincial co-operative banks have taken advances of small amounts from the Reserve Bank against Government securities on a few occasions since 1933. They had ample resources of their own but approached the Reserve Bank in order to avoid selling securities for meeting what was only a temporary need, and to be able to borrow at the lowest rate.

The problem of agricultural finance is widely different from that of industrial finance, and the special circumstances of India make it all the

<sup>1</sup> *Functions and Working of the Reserve Bank of India*, p. 70.

more difficult of solution. The anxiety of the Reserve Bank to keep its investments liquid and to avoid all risks is also perfectly natural. A way out of the difficulty must, however, be explored, in the direction of establishing special credit machinery on lines adopted in the U.S.A., Australia and England, for meeting the short-term, intermediate, and long-term credit needs of agriculture.<sup>1</sup> It is possible for the Reserve Bank within limits of prudence to establish valuable financial relations with agriculture through the existing agency of co-operative banks and further to extend the scope of its Agricultural Credit Department. Early steps to bring the indigenous bankers directly within the orbit of the Reserve Bank should be taken, as thereby the assistance given to agriculture by the Bank could be substantially extended.<sup>2</sup>

§24. The state in relation to the co-operative movement.—While avoiding undue interference, it is the duty of the state to offer its good offices to act as a friend, philosopher and guide to the co-operative movement, which can be made into a powerful agency of social regeneration. In India, owing to the widespread ignorance of the masses, the long tradition of state interference and the urgency of the problem of rural credit, the Government have very properly and vigorously taken the initiative in the co-operative movement. Equally properly, they have refrained from the policy of financial spoon-feeding, which, as the experience of France shows, does more harm than good. We have already seen that the state has conferred on co-operative institutions certain fiscal and judicial concessions and granted limited financial help to new societies. In Bombay, the Government have extended a guarantee of interest at four per cent on the debentures issued by the Bombay Provincial Co-operative Bank up to a maximum amount of Rs. 20 lakhs. This concession has enabled the Bank to raise the much-needed long-term capital for rural finance at a moderate rate without any drain on the funds of the Government, who are not likely to be called upon to make good the guarantee on account of the safe character of the business of the Bank. In more recent years the Government of Bombay, as also the Government of Madras, have extended similar help to the debentures issued by Provincial Co-operative Land Mortgage Banks.<sup>3</sup> The Government of Bombay have also adopted the policy of advancing takkavi loans for permanent improvements of land through the agency of co-operative societies. It would be sound policy in all the provinces to extend liberal assistance to the more specialized forms of co-operation, such as consolidation of holdings, adult education, irrigation, etc. We have already referred to the establishment of the Agricultural Credit Department of the Reserve Bank of India and its interest in the co-operative movement.<sup>4</sup> A sum of Rs. 15 lakhs out of

<sup>1</sup> The question of long-term credit and the Reserve Bank's attitude towards land mortgage banks is dealt with later in the chapter. See §§28-9, 31.

<sup>2</sup> This question is fully discussed in vol. II, ch. xi, §§4-5.

<sup>3</sup> See §31 below.

<sup>4</sup> See §§22-3.

the total grant of Re. 1 crore for village uplift made by the Central Government in 1935 (March) was earmarked for the purpose of extension and improvement of the co-operative movement in the light of the recommendations made by Mr M. L. (now Sir Malcolm) Darling, I.C.S., in his report on the opening of the Agricultural Credit Department of the Reserve Bank of India. Apart from the subsidy for training given by the Government of India, provincial Governments have also increased their grants to the existing institutions imparting co-operative education. It may be pointed out here that the Government of Bombay launched a co-operative training scheme for the training of departmental staff and the employees of central and urban banks and of the rural development staff.<sup>1</sup> The training of departmental staff has received particular attention in the Punjab, and is conducted by a special educational staff. The Madras Committee on Co-operation in their Report (par. 379) recommended the starting of a co-operative college, to be organized and managed by the Government, for aspirants for employment in the Co-operative Department and for higher posts in big urban and central banks.

Turning to the policy of the Government as regards guiding and controlling the movement, it has been on the whole a sound one. For instance, in negating the demand made in certain quarters for the devolution of some of the duties of the Registrar on to the District Officer, the Government have rightly agreed with the Maclagan Committee, who deprecated excessive official interference and laid down that 'the correct position of servants such as the Collector would be to stand as well-wishers equipped with the requisite knowledge and sympathy and to refrain from having any intimate connexion with the management or assuming any direct financial responsibility'. An exception, however, seems to be implied as regards the relation between the Co-operative Department and the movement of co-operation. While the original policy was progressively to relax the hold of the Department and to make the Registrar ultimately little more than a registering officer as the societies became self-reliant and private enterprise was capable of standing on its own legs, it does not seem to have been consistently carried out. If anything, the position of the Registrar is becoming one of increasing dominance, and the dry-nurse element in his duties is not showing any signs of disappearance. And the Maclagan Committee appeared to put the seal of their approval on this retrograde policy. They held that, in general, the continued development of co-operation in India on any other condition than the permanent maintenance of an efficient and highly paid staff of Registrars could not be contemplated. It is, however, generally agreed that even at the risk of some inefficiency, the policy ought to be to encourage responsible private enterprise and to deofficialize the movement as far as possible and make it more self-reliant. With the inauguration of the Montagu-Chelmsford

<sup>1</sup> *Annual Report on the Working of Co-operative Societies in the Province of Bombay* (1939-40), par. 120.

Reforms in 1921 there was a welcome tendency to liberalize the movement, but since the economic depression of the thirties there has been a reaction, and the tendency is to bring the movement more and more under the control of the Department. One way to make the movement more non-official in character would be to give all possible encouragement to non-official bodies like the Bombay Provincial Co-operative Institute or the Provincial Co-operative Union, Madras, and to delegate to them some of the functions of the Registrar in the matter of supervision, organization and audit of societies and to stimulate them to carry on propaganda by holding conferences, arranging training classes for society office-bearers and the general public, conducting journals and generally devoting themselves to rural reconstruction work. The vital need of the movement is the creation by unofficial federations and other central agencies of their own supervising and controlling staff, the absence or inadequacy of which inevitably leads to official interference. An official audit at suitable intervals may be retained as a healthy check on the affairs of the societies and to ensure public confidence. Official control and guidance are no doubt necessary and will continue to be so for some time to come.<sup>1</sup> And there is nothing wrong in pleading for an increase of the official staff to enable the Department to perform its statutory duties more efficiently and to insist that it should be highly educated, well-trained and well-paid. It is also quite legitimate to urge that in view of his onerous and difficult duties 'the personality of the Registrar is a matter of the greatest importance and that the best man available should be selected for the post'.<sup>2</sup> But officials and non-officials alike concerned in the movement should direct strenuous efforts towards making it self-regulating, self-sufficing and democratic as rapidly as circumstances permit.

§25. Co-operative Institutes, etc.—The Bombay Co-operative Societies Act (1925) recognized the Bombay Provincial Co-operative Institute, which under a non-official president serves to focus the co-operative activities of the province, including the holding of the provincial co-operative conferences. The Institute receives a grant from the provincial Government for its work of training, and for the publication of co-operative literature. Unlike provincial co-operative unions, which are the final federations of all societies, being entrusted with definite duties of audit and supervision and enjoying a definite legal status, the Institute is a body mainly for imparting co-operative education—a function which it shares with the Government. While, however, the Institute is doing useful pro-

<sup>1</sup> Cf. C. R. Fay, *Co-operation at Home and Abroad*, vol. II, p. 39: 'The old view that Government can start Co-operative Societies and then withdraw, I suggest, is false. Once in, always in—somewhere. Sound policy requires that it should enter cautiously and make its progressive assistance contingent on self-help by the membership.'

<sup>2</sup> For an excellent discussion of the qualifications which the Registrar ought to possess and the all-embracing nature of his functions, see *Agricultural Commission Report*, par. 375, and also Strickland, *Report on Agricultural Co-operation in Palestine*, pars. 26-9.



paganda work, it has not yet fulfilled to any degree its additional objects of the systematic study of co-operative problems and of contributing expert knowledge and advice on the more specialized sides of the movement. The Government of Bombay issued a scheme in 1938 for the reorganization of the Institute, providing for a revised constitution under which its main duty would be to impart education to members of co-operative societies and to workers of the co-operative movement, and under which its membership would consist of District Supervision Boards and other federations of co-operative societies. It would also serve as a focusing centre of non-official opinion on various subjects affecting the movement.

An interesting development regarding the progress of non-official co-operative agencies was the establishment, on 1 October 1929, of the All-India Co-operative Institutes' Association, the formation of which was agreed to by the first All-India Co-operative Institutes' Conference in Bombay in September 1929. Its main object is to promote and extend co-operation through the member institutes and to furnish advice and assistance to them on all co-operative questions. The Association started the issue of its own quarterly journal, *The Indian Co-operative Review*, from January 1935. It offers a useful periodical survey of the co-operative movement in the whole of India.

Another all-India co-operative organization is the Indian Provincial Co-operative Banks' Association, which has for its object the furtherance of common interests, especially in matters of finance, legislation and administration.

§26. A critical estimate of the co-operative movement in India.—The co-operative movement in India has not indeed succeeded in curing all the economic and social ills from which the country is suffering today. On the other hand, it has not been altogether barren of results. In the first place, owing to the cheaper credit made available by co-operative societies, much saving, estimated at about a crore of rupees, has been effected by the agricultural and artisan classes, and it is not unduly optimistic to expect that, in the not-too-distant future, this figure will multiply itself many times over, especially if other forms of co-operative organization, intended to provide long-term credit, come into existence. Co-operation, moreover, has substituted a system under which credit is controlled and debt restricted for the money-lender's demoralizing system of dangerously facile credit. (In several places co-operation has successfully undermined the predominant position of the money-lender and compelled him to bring down his rates of interest) In the matter of debt redemption, although much still remains to be done and although it is true that co-operation alone would be unequal to the colossal task of ridding the peasantry entirely of its burden of indebtedness, something has nevertheless been achieved especially by the establishment of land mortgage banks on co-operative lines.<sup>1</sup> The co-operative movement may be regarded as a

*See also*

<sup>1</sup> See §30 below.

new form of communal life to protect the peasant from within and without his gates, in the place of the old communal life of the village which prevented the cultivator from being exploited.<sup>1</sup> Further, with the progress of co-operation, the banking habit is slowly but steadily developing in rural and urban areas and the hoards that were lying unused are gradually coming into fruitful employment. Agriculture, the premier industry of the country, has benefited in a variety of ways by co-operation, which has facilitated the work of the Agricultural Department in popularizing improved seed and cattle, cheap manures and implements and, in general, helping the realization of the ideal of 'better farming, better business and better living'. The gradual development of a truly organic connexion between co-operation and agriculture is pregnant with great possibilities.<sup>2</sup> Co-operation has also made important beginnings in dealing with problems of rural sanitation, provision of suitable medical facilities in rural areas, etc. Finally, the co-operative movement has served to counteract the tendency towards rural depopulation in certain parts of the country.

Societies started for special non-agricultural purposes, though as yet on a small scale, are doing useful work in their respective fields. The condition of factory labourers, depressed classes and employees of all sorts, is being gradually ameliorated under the benign influence of co-operation. Cottage industries, notably the hand-loom industry, are receiving the support and the assistance of the movement.<sup>3</sup>

Not the least important of the advantages of co-operation, in the widest sense of the term, are intellectual and moral, and wherever co-operative societies have been started they have generally not failed to yield these advantages. 'It is difficult to give conclusive evidence of this [moral progress] as the signs of moral progress are too elusive to be pinned down in a statement of facts; but for all that they are unmistakable to close observers of the movement. (Litigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society and in their place will be found industry, self-reliance and straight dealing, education and arbitration societies, thrift, self-help and mutual help.)' (M. L. Darling). The movement has in some cases created a keen desire for education, and even persons fairly advanced in age have been found to seek its benefit. It has also improved the character and the general tone of morality and promoted the development of a feeling of 'all for each and each for all' among the village folk. In short, the co-operative movement bids fair to be a powerful instrument for the revival of the old corporate life of the villages and to restore their vitality.

<sup>1</sup> See Darling, *Punjab Peasant*, fourth edition, p. 248.

<sup>2</sup> See Government of India's Resolution on Co-operation, 17 June 1914, par. 7.

<sup>3</sup> Of the two aspects of the movement, rural and urban, the latter has a much more satisfactory record alike in respect of the magnitude of its operations absolutely as well as relatively to population, the efficiency of management and the quality of service rendered to its constituents.—*Review of the Co-operative Movement in India* (1939-40), p. 80.

It must, however, be admitted that all these benefits—moral, educational, as well as purely economic—have been secured only on a very small scale. For example, much yet remains to be attempted and achieved in the field of non-agricultural co-operation. Even agricultural co-operation is practically confined to the sphere of credit and here too, as Sir M. Visvesvaraya remarked, 'all that has been done amounts only to a scratching of the surface'.<sup>1</sup> Co-operative credit again has generally prospered only where the monsoon is normal. In precarious tracts, overdue loans and failure to repay are distressingly common. Moreover, as the Central Banking Enquiry Committee point out, the credit provided by the co-operative organization is still much too dear for the cultivator in some provinces and it is necessary to take further steps to effect a reduction in the present rates of interest.

It is also clearly necessary that we should frankly recognize, in order to be able to remedy, the various defects in the actual working of the movement in India today, such as unpunctuality of payments, fictitious payments, excessive overdues, defective audit, inefficient control, *benami* loans, nepotism, red-tapism, inelasticity, dilatoriness and inadequacy of co-operative finance, etc.<sup>2</sup> The staff appointed to teach members the true principles of co-operation is itself sometimes ignorant, ill-trained and unfit for the work entrusted to it. Managing committees and presidents are too often allowed to usurp all power, to the detriment of the rank and file of the members; and office-holders and leaders of the movement often display 'an undue delicacy and lack of moral courage in dealing with the faults and misdemeanours' of the members, and put up with serious irregularities in the hope that a Government officer will come one day and put things right. They show a great disinclination to incur the unpopularity attendant on stringent action taken against recalcitrants and the recovery by legal process of overdue debts. The overdues have shown an alarming increase during recent years and are at present the most disquieting feature of the co-operative movement. The grant of excessively generous loans, loans for unproductive purposes and slackness in recovery are important causes of overdues which are everywhere large and have in effect become long-term loans.

Many of the members seem to believe that the co-operative movement is merely a state-managed affair and that it is Government money which

<sup>1</sup> op. cit., p. 185. The Central Banking Enquiry Committee also found that the credit facilities provided by the co-operative movement to agriculturists covered but a very small proportion of their needs (*Report*, par. 169).

<sup>2</sup> For a detailed study of the various weaknesses of the co-operative movement in India, see the *Reports on Agricultural Credit, Functions and Working of the Reserve Bank of India* and the *Review of the Co-operative Movement in India* (1939-40) issued by the Reserve Bank of India, the *Report of the Committee on Co-operation in Madras* (1939-40), the Papers on rural co-operation read at the twenty-fifth session of the Indian Economic Conference and published in the *Indian Journal of Economics*, Conference Number (1941); also Eleanor M. Hough, *The Co-operative Movement in India*, pp. 226-40.

they borrow from their society. The failure of members to understand properly the aims and objects of co-operation engenders in them an attitude of apathy and indifference which is fatal to the movement. They are also apt to take a mercenary view of the society, regarding it merely as a cheaper substitute for the village money-lender, and are thus unable to identify themselves with the movement in the whole-hearted manner that is essential for its success.

As we have seen, the co-operative movement in India owes its origin to Government initiative and not to spontaneous action taken by the people themselves, but the fact that it still remains very largely in official leading strings must be regarded as a radical defect, since the essence of co-operation is self-help. The vital principle and the will to live must come from within and not be supplied by some extraneous agency.

As previously pointed out, the movement received a serious setback with the onset of the depression in the year 1929. Though the depression was the major cause of the difficulties in which the co-operative movement found itself, it also became clear that the movement had inherent defects, which could not be noticed in the period of rapid expansion but which became only too evident in the period of depression. There was a crisis in some provinces including Bihar, Orissa, the Central Provinces, Bengal and Burma. While the crisis made painful adjustments necessary, it also served to focus attention on the difficulties of the movement, which has been passing through a phase of healthy introspection and self-criticism. There is no longer any straining after spectacular triumphs, and solid results are being aimed at more and more. The keynote of the official attitude everywhere has come to be 'consolidation' and 'rectification' rather than 'expansion'. Official boosting of the movement in the spirit of a pedlar crying up his wares has disappeared, and there is instead a genuine desire to find out faults with a view to removing them. Searching inquiries have been carried out in the Central Provinces and Berar, Bihar, Orissa, Bombay and Madras. The Preliminary and the Statutory Reports on Agricultural Credit issued by the Reserve Bank of India, the Bulletins and the *Review of the Co-operative Movement in India* (1941) issued by the Bank have further subjected the co-operative movement to the searchlight of criticism. As a result of these inquiries, schemes for rehabilitation of the co-operative movement have been framed and put in force in the Central Provinces, Bihar and Bengal, and steps are being taken in all the provinces to reconstruct and revitalize the societies through various measures, some of which are noted in the next section. This is all to the good, because it is suicidal to ignore or gloss over the defects in the movement. They must be squarely faced and tackled resolutely. Workers in the movement must not despair because the results so far have not been commensurate with their enthusiastic expectations. They must keep their faith bright in the gospel of co-operation which has after all worked such wonders elsewhere, and labour more strenuously than ever to make it a success in this

country. For as the Agricultural Commission remarked: 'If co-operation fails, there will fail the best hope of rural India.'<sup>1</sup>

§27. Re-orientation of the co-operative movement.—We may conclude our account of the co-operative movement in India by a statement of the principal suggestions made by the Agricultural Credit Department of the Reserve Bank of India in its Statutory Report and the action taken on them with a view to effecting the rectification and reorganization of the co-operative movement.<sup>2</sup> The need for such an improvement has become all the more urgent owing to the contraction of private credit following the Rural Debt Relief legislation in the different provinces.

(i) The overdues and long-term loans of co-operative societies should be separated from short-term loans and placed on a proper footing. To this end, the overdues should be scaled down so as to make their redemption from agricultural profits possible within a period of twenty years. This should be done partly by writing them off from reserves and other funds, and partly by recovery from sale of part of the member's assets, transferring the remainder to a special agency like the land mortgage banks. This procedure is less objectionable than the policy of withholding further finance or wholesale liquidation of societies in arrears.

The general method of the reconstructive programme was to examine the loans due to the societies with a view to scaling them down to the paying capacity of the borrowers and to make these reduced amounts repayable in instalments within a number of years. An essential part of the rehabilitation programme was the supply of fresh finance, preferably in kind, to retained members of co-operative societies for cultivation and other necessary expenses on a controlled basis of repayment in kind, the provincial Governments often extending the necessary assistance through the provincial banks. A large number of crop loan societies have been organized in Bengal and Berar to help the agriculturist to obtain finance for seasonal agricultural operations, since the existing village societies are unable to extend fresh credit for the purpose. Central banks are also being reconstructed in some of the worst-affected provinces with a view to adjusting their assets and liabilities and reorganizing their operations.

(ii) Co-operative societies are advised to build up strong reserve funds by providing for an adequate margin between their borrowing and lending rates. This would enable them to tide over unfavourable seasons when their members are prevented from repaying the loans and to meet the losses thus caused. While such a practice would undoubtedly strengthen the financial standing of co-operative societies, there is at the same time

<sup>1</sup> *Agricultural Commission Report*, par. 371. '... in spite of its past failures the movement can be developed, so as not only to fulfil the narrow function of finance but also to become the chief instrument of rural reconstruction in India.' Foreword by Sir Manilal B. Nanavati to the *Review of the Co-operative Movement in India* (1939-40).

<sup>2</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 15-35.

some justification for the criticism that the proposal, if adopted, would lead to the charging of high interest rates which it would be beyond the capacity of agriculture to pay.

(iii) Loans should be restricted to cultivation expenses including limited advances for supplying intermediate credit for such purposes as the purchase of cattle and implements. Loans for other purposes, which though not strictly productive are absolutely necessary, should be reduced to a minimum, and should not be beyond the capacity of the agriculturist to pay. To this end the agriculturist should be prevented from borrowing from more than one source and his total future liability should be limited in terms of a suitable multiple of land revenue or on the basis of the average value of land.

(iv) The primary credit society, which is the pivot of the whole co-operative movement, should be reconstructed on sound lines as indicated in the Reserve Bank's Bulletin on village banks. It should work as a multi-purpose society and aim at bringing the entire life of the cultivator within its ambit. It should build up its own funds with shares and reserves and attract deposits from members by teaching the lesson of thrift and prudence to them. We have already referred to the action taken on this recommendation and the establishment of multi-purpose societies in some of the provinces (see §13 above).

(v) Primary societies should be federated into small Banking Unions (as at Kodinar in Baroda State), which will be able to concentrate in their hands all the functions of finance, supervision, and education for which different agencies are employed at present resulting in a diffusion of energy and waste (see §17 above).

(vi) Co-operative marketing should be developed by making a start from the bottom. With this object in view, primary societies should be induced to take up joint marketing of agricultural produce raised by their members. They should be linked up with larger central sale societies. We have already referred to the new marketing scheme in the Bombay province.

(vii) The existing central and provincial co-operative banks should be re-organized. The large and unwieldy central banks should be split up into suitable banking unions, even if the central co-operative bank is to be retained. The central banks should begin to take a more intimate interest in the work of the societies affiliated to them, supervise and guide their operations, assist them in training their members in the principles of co-operation and generally in improving their working, so as to enable them to raise the moral and material standard of their members. The provincial co-operative bank should also play a much bigger part in the direction and guidance of the movement in the whole province. Both these types of banks should maintain sufficient fluid resources to provide for the withdrawal of deposits, build up adequate reserve funds and make a strict provision for setting out overdues in the balance sheet in such a way as to present a true picture of their condition. Co-operative banks

should establish closer contact with first-class commercial banks and take the latter's advice in re-organizing their business, and have some professional bankers on their boards. They should also make adequate provision for the training of their staff.

(viii) Provision should be made for the intensive training of the co-operative staff in co-operation, rural economics and the theory and practice of banking. Special importance should be attached to the proper training of the Registrar who forms the foundation of the whole movement.

#### LAND MORTGAGE BANKS

§28. The need for land mortgage banks.—In order to bring about the permanent release of the agriculturist from his indebtedness, loans for sufficiently long periods are necessary. They are also required to enable the agriculturist, big and small, to effect costly but profitable improvements. Co-operative societies are unable to meet adequately either of these requirements and the utmost they can be expected to do is to supply the needs of the agriculturist for short and intermediate credit. They cannot afford to lock up their funds for long terms, and yet the cultivator badly needs long-term loans for various purposes. The Raiffeisen type of village bank is not intended to meet the requirements of the large landed proprietor who forms the money-lender's easiest and readiest prey. Moreover, the ordinary commercial banks and money-lenders cannot afford to tie up their capital for long periods nor to recover the loans in small dribblets out of the earnings or savings of the borrower. Hence arises the need for special types of credit institutions generally called 'land mortgage banks'. These banks are intended to displace not only the money-lender but also the present unsatisfactory system of state loans and, by lowering the rates of interest, to bring many productive improvements within the reach of the landholder.<sup>1</sup>

§29. Three types of land mortgage banks.—Land mortgage banks may be co-operative, non-co-operative, or quasi-co-operative. So far as relief to small agriculturists and owners of small holdings is concerned, the co-operative type is the most suitable, being based on mutual association and guarantee of the property mortgaged by the members. However, the type which is largely in vogue in India is the quasi-co-operative variety. Although there are substantial elements of co-operative theory and practice in all land mortgage banks, they are conceived of as limited liability associations of borrowers with a few non-borrowing individuals thrown in to attract initial capital as well as the business talent and organizing capacity needed to make the management efficient. Moreover the valuation of lands is effected by trained officials lent by the Government and loans require the previous sanction of the Registrar. The Reserve Bank stresses the danger of relying too exclusively on institutions of a co-operative character. Their directorate and management represent the

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, pars. 381, 384.

would be borrower too exclusively and offer inadequate security to lenders. The quasi-co-operative type that is now being established in Bombay and other provinces (see §§ 30 and 32 below) should go a long way in meeting the danger pointed out by the Reserve Bank. The non-co-operative or commercial land mortgage bank is better suited to finance big landlords or zamindars.<sup>1</sup>

§30. History of land mortgage banks in India.<sup>2</sup>—As early as 1863, a company called the Land Mortgage Bank of India Limited, with the subtitle of *Crédit Foncier Indien*, was registered in London, being based on the model of the French *Crédit Foncier*. The bank, which had a flourishing career for about twenty years, gradually declined owing, among other reasons, to its large advances against tea (the price of which was then going down), the non-fulfilment of its expectation regarding the extension of Permanent Settlement to the whole of the country, and the appearance of rivals like the loan offices in Bengal which began to advance money to the landlords. The unsuccessful project of a land bank for the Poona district suggested by Sir William Wedderburn in 1883 has been already described.<sup>3</sup> Sir Frederick Nicholson held (1895) that land banks were neither suited to nor needed by the ryots of the Madras Presidency. Sir Dinshaw Wacha, however, was a strong advocate of land banks of the Egyptian type, which he regarded as affording the only satisfactory solution for the problem of indebtedness. In 1919, Sir James Meston, then Finance Member, spoke in favour of land banks started very largely by local enterprise and maintained under local supervision and control by groups of intelligent landlords; but, at the same time, he pointed out that it was not advisable for the Government to undertake work of this sort on a large scale. Most of the earlier schemes, it will be observed, did not contemplate the grant of loans to ryots on the security of their holdings, being for the most part intended for the bigger landlords. Opinion in this respect has, however, changed since, and the establishment of such banks for the benefit of ryots may now be regarded as the official and non-official creed in India, which was also adopted by the Bombay Registrars' Conference in 1926.

The Punjab had the honour of giving the lead in this matter, and its first co-operative land mortgage bank was started in 1920 at Jhang. In the years before the beginning of the depression years the number of such banks increased to twelve. The banks were, however, far from successful, and it is unfortunate that the movement in the Punjab is now at

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, pars. 198-9, and the *Preliminary Report on Agricultural Credit* (Reserve Bank of India), par. 17.

<sup>2</sup> For the earlier history of land mortgage banks; see J. C. Sinha's paper on Land Mortgage Banking read before the Indian Economic Conference, Lucknow, 1928. For their present position see the *Report of the Central Banking Enquiry Committee*, pars. 204-10, notes on the working of land mortgage banks in the several provinces in *The Indian Co-operative Review* (July-September, 1937), pp. 498-501, (April-June, 1941), pp. 265-303, and the *Review of the Co-operative Movement in India* (1939-40), pp. 36-40.

<sup>3</sup> p. 265.



a standstill. No new banks are being started, and very few loans are being granted. The number of old banks has been reduced to ten. The depression with the accompanying fall in land values and the existence of the Land Alienation Act mainly accounted for their failure, to which the defaults of the directors and honorary workers, who were themselves large borrowers, also contributed.<sup>1</sup> Attention is being concentrated on recoveries, and the question of reorganization of these banks is receiving attention from the Government.

Madras came later than the Punjab but has done much better (see §32 below). Bengal, the United Provinces and Assam have also taken steps to inaugurate such banks, and Bombay has already established 18 such institutions in selected districts of the province on the model of the national farm loan associations of the United States.<sup>2</sup> In 1935 the Central Provinces Government established 10 Co-operative Land Mortgage Banks, guaranteeing capital and interest to the extent of Rs. 50 lakhs. Eleven more have since been started. Madras has made the most remarkable progress in this direction and has to its credit over 119 land mortgage banks (see §32 below). Progress is slow in Bengal and the United Provinces, each of which has only 5 land mortgage banks. One difficulty in Bengal is the unwillingness of co-sharers to join in the execution of land mortgage bonds. Splitting-up of holdings and high lending rates are other difficulties. Assam has 5 land mortgage banks and Orissa 1. Certain Indian States such as Mysore, Baroda and Cochin have also established similar banks. The movement for the establishment of land mortgage banks has been considerably influenced by the success obtained by the land mortgage banks (*Landschaften*) in Germany, and the question of introducing banks on this model has received careful study in India, particularly at the hands of the Agricultural Commission, the provincial Banking Enquiry Committees, and the Central Banking Enquiry Committee.

Certain favourable circumstances for the extension of land mortgage banks have prevailed in recent years, especially since the great depression. In the first place, money-lenders in the rural areas are in a mood to compound their dues by accepting smaller but surer cash payments, and a programme of debt conciliation can be carried out by these banks with a view to effecting considerable reduction in debt liabilities. In the second place, abundant supplies of cheap money have been available in the money market on easy terms against sound security.<sup>3</sup> This situation was somewhat adversely affected by the outbreak of the war in September 1939. Debentures of the land mortgage banks are not taken up to the same extent as before by the public, who were naturally hesitant to lock up their money for long periods. There was also a limited tendency for money rates to be hardened. Nevertheless World War II, unlike the war

<sup>1</sup> *Review of the Co-operative Movement in India (1939-40)*, p. 36.

<sup>2</sup> The Government of Bombay have issued orders that no new land mortgage banks should be registered unless the position of the existing land mortgage banks is improved.

<sup>3</sup> See *Report of the Bombay Land Mortgage Committee*, pars. 11-13.

of 1914-18, did not create a tight money market and high interest rates. On the whole, conditions since the depression (1929) have been favourable for organizing land mortgage banks.

At the same time there is need for caution in organizing such banks. They should be established only after the most careful preliminary inquiry, and their constitution and working should be as simple as possible. The management should be efficient and punctual. Defaults committed by a bad bank may endanger the reputation of good banks and destroy public confidence in debentures. No money should be advanced which is not likely to be profitable to the borrower.

§31. State aid to land mortgage banks.—We need hardly emphasize the value of state help for the successful working of the land mortgage banks in India. State assistance may be given in the form of a guarantee for the repayment of both principal and interest, purchase by the Government of a portion of the debentures or bonds pledged against land, declaration of such bonds as trustee securities,<sup>1</sup> grant of special facilities and privileges to the bank as a mortgagee (as in Germany), the grant of concessions similar to those enjoyed by co-operative societies, and subsidies for meeting working costs.<sup>2</sup> In the absence of such state aid, land banks are not likely to be able to sell their bonds in the market at a reasonable price and quote a moderate rate of interest. While the Reserve Bank has expressed its reluctance to purchase the debentures of land mortgage banks at this stage of their development, it has rendered them valuable advice regarding the issue of debentures, provision of sinking fund for their redemption, etc.<sup>3</sup>

§32. The Madras and Bombay schemes.—An examination of land mortgage banks in the provinces of Madras and Bombay, where the technique of land mortgage banking is best developed, will indicate the general lines of the constitution, finance and management of such banks.

(i) *Madras scheme*.—The real beginning of land mortgage banking in India was marked by the establishment in 1929 of the Central Land Mortgage Bank in Madras for centralizing the issue of debentures and for co-ordinating the primary banks established under a scheme of special land mortgage banks sanctioned in 1924-5 by the Government of Madras.<sup>4</sup> Under this scheme the Government undertook to take up half the debentures to the maximum amount of Rs. 2½ lakhs, provided that debentures of at least an equal amount were taken up by the general public. In addition to debentures and deposits (accepted for not less than three years), a portion of the working capital consisted of share capital, the

<sup>1</sup> The amendment of the Indian Trusts Act in 1934 provided for the inclusion of debentures floated by land mortgage banks in the list of trustee securities.

<sup>2</sup> For particulars regarding the assistance given by certain provincial Governments to land mortgage banks, see §32 below.

<sup>3</sup> *Preliminary Report on Agricultural Credit*, par. 21.

<sup>4</sup> See the draft scheme submitted by the Registrar, Madras, in his letter to the Secretary to the Government, Development Department, 1 June 1924.

value of the shares being kept low so as to enable the small cultivator to join the bank. The formation of these banks was confined to valuable wet areas.

A limited area of operation, restricted to a group of villages within six or seven miles from the headquarters of the bank, was considered desirable so as to ensure some degree of mutual knowledge and to facilitate the identification and valuation of the land to be mortgaged to the bank without the help of professional experts. Twenty such banks were established by 1929. Of these only eight issued any debentures. In spite of Government help, the progress achieved by these banks on the whole was poor, mainly owing to their inability to sell their debentures to the public. The Townsend Committee on Co-operation (1927-8) examined their position and found that they could not make any satisfactory progress unless a central land mortgage bank were formed with individuals and primary land mortgage banks as members, to issue debentures as a floating charge on the value of the mortgages transferred to the central land mortgage bank by the primary land mortgage banks. Accordingly the Central Land Mortgage Bank was started in December 1929 at Madras and was calculated largely to remove a serious defect of the Madras scheme, namely a number of scattered, unco-ordinated and small land mortgage banks, flooding the market with competing issues. The Government of Madras have given facilities to the Bank, such as a guarantee for interest up to six per cent on all debentures floated by the Bank in the first five years up to the limit initially fixed at Rs. 50 lakhs—this limit has since been successively raised and now stands at Rs. 310 lakhs—but for the full term of the issues, loan of the services of two Deputy Registrars to inspect local mortgage banks and of ten Sub-Deputy Registrars, in the first instance for a period of three years, to assist in all inquiries on behalf of the local land mortgage banks, and a subsidy of Rs. 25,000 for working expenses. To safeguard their interests, the Government are represented on the Board by the Registrar, who is also appointed trustee to the debenture holders, and by a nominee of the Registrar approved by the Government. Apart from leading co-operators, commercial magnates and public men in the Presidency were included in the first Board of Directors of the Central Land Mortgage Bank, whose debentures evoked a fair response from the investing public. Up to 30 June 1940 the bank had floated debentures to the extent of Rs. 2.64 crores, of which Rs. 1.95 crores were outstanding on that date. On 30 June 1941, the total amount of debentures in circulation amounted to Rs. 2.43 crores.

The Bank's career has been one of fair and steady progress excepting for the lull during 1931-2, which was an exceptional year of severe financial stringency. There were at the end of June 1940, 119 primary land mortgage banks affiliated to the Central Land Mortgage Bank. The debentures are so highly valued that they could be floated at 3 per cent before the outbreak of the war. Following the changes in the money market created by the war, the rate of interest on the debentures was raised by  $\frac{1}{2}$ .

per cent. The lending rate to the primary land mortgage banks was raised to 5 per cent and that to the ultimate borrower to 6 per cent. The 119 primary land mortgage banks in the province cover 18,021 villages and have so far lent Rs. 3 crores to their members.<sup>1</sup> The Madras Co-operative Land Mortgage Bank Act (1934) empowers the Local Government to guarantee the debentures, the principal as well as the interest on them, floated by the Central Land Mortgage Bank and gives the bank effective powers to collect from defaulters, and removes several legal impediments hampering the successful working of these banks.

Madras has thus achieved comparatively the greatest success in the new field of land mortgage banking and serves as a model for other provinces and States.

(ii) *The Bombay scheme.*—In September 1926 the Government of Bombay approved of the draft scheme prepared by Mr J. A. Madan, I.C.S., the then Registrar. The Government approved of the registration of three land mortgage banks for Dharwar, Broach and East Khandesh (Pachora) districts (on the model of the national farm loan associations of the United States) as an experimental measure, to be financed provisionally by the Bombay Provincial Co-operative Bank, and agreed to buy its debentures worth Rs. 2 lakhs carrying 4 per cent interest. The Provincial Bank set up a separate land mortgage department for carrying out its new duties.

The experiment in Broach District proved very encouraging although a scrutiny of the working of these banks by the Bombay Land Mortgage Committee revealed certain defects, such as defective estimates of the repaying capacity of borrowers, in the case of the Pachora and Dharwar banks. But as the Bombay Land Mortgage Committee pointed out, these were not insuperable objections militating against the success of these banks. The Committee therefore strongly urged the extension of land mortgage banks in the various districts of the province and formulated an improved scheme, making provision for the establishment of a separate central land mortgage bank (corresponding to the 'federal land bank', under the American system) for issuing debentures. The Bombay Provincial Co-operative Bank, which receives short-term deposits from the public and serves as an apex bank for the ordinary primary credit societies and district central co-operative banks granting short-term loans, is entirely unsuitable for financing primary land mortgage banks. Besides, the latter is a special type of business which requires distinctive handling and expert staff.<sup>2</sup>

<sup>1</sup> See the *Annual Report of the Registrar* (Madras) for 1939-40, pars. 20 and 21, and article by C. G. Menon on 'The Madras Co-operative Central Land Mortgage Bank' in *The Indian Co-operative Review* (April-June 1941).

<sup>2</sup> See *Report of the Bombay Land Mortgage Committee*, par. 21. The undesirability of provincial co-operative banks undertaking the supply of long-term land mortgage credit is well brought out in an instructive article on 'The Indian Provincial Co-operative Banks' in *The Indian Co-operative Review* (April-June, 1941).

The Government of Bombay gave effect to the recommendations of the Land Mortgage Committee in the year 1935 and a number of primary land mortgage banks have been registered since 1 April 1935. The area of operations has been restricted to places which are less liable to scarcity and famine and where the co-operative movement has made appreciable progress. At the same time steps were taken to constitute a new central land mortgage bank. Accordingly the Bombay Provincial Co-operative Land Mortgage Bank was formally registered on 7 December 1935, under the Bombay Co-operative Societies Act, the late Sir Lalubhai Samaldas being the first president of the bank.

The main functions of the new apex bank are to finance the primary mortgage banks—all of which are now affiliated to the apex bank—by issuing debentures, to inspect their working and to give them advice and help. In the budget session of 1935, the Bombay Legislative Council passed a resolution authorizing the Government to guarantee both the principal and interest of the debentures to be issued by the bank to the extent of Rs. 50 lakhs. During the year ending 30 June 1938 the bank floated the first series of debentures of Rs. 20 lakhs at  $3\frac{1}{4}$  per cent; the second series of debentures to the extent of Rs. 10 lakhs was issued at  $3\frac{1}{2}$  per cent in 1939-40.<sup>1</sup> Arrangements have been made for sinking funds in respect of each separate issue of debentures. The fulfilment of the obligation of the Bank towards the debenture holders is secured through a trustee appointed by the Government. These debentures have been declared trustee securities and appear to be a popular line of investment to insurance companies, banks and private individuals.

The Provincial Land Mortgage Bank advances loans to agriculturists through the primary mortgage banks on the security of their lands. The primary banks have to investigate the title to lands, income, and the repaying capacity of the agriculturists. Loans are given only to members on the recommendations of the Board of Directors of the primary banks, submitted to the Provincial Land Mortgage Bank. The maximum amount of such loans to individual members is restricted to Rs. 10,000. Subject to this maximum no member can receive from the primary bank a loan exceeding twenty times his paid-up share capital in the bank, or half the value of his immoveable property given in mortgage to the bank. No loan can be granted for a period exceeding 20 years. Sanction of the Registrar is necessary for all the loans from the Provincial to primary banks and from the primary banks to individuals in the initial stages. Interest on loans granted by the bank is not to exceed  $1\frac{1}{2}$  per cent over the rate ( $4\frac{1}{2}$  per cent) charged by the Provincial Land Mortgage Bank. The members of the primary banks are thus able to borrow at 6 per cent, a rate substantially lower than the existing onerous rates of interest charged to agriculturist borrowers by money-lenders. This should in itself go a

<sup>1</sup> See the Sixth Report by the Directors of the Bombay Provincial Co-operative Land Mortgage Bank, Ltd., dated 6 September 1941.

long way to reduce the existing liabilities of the debtors. Repayment of the loan is to be either by equal annual instalments of principal, interest being calculated on the amount outstanding from time to time, or by equated annual instalments including both principal and interest. The land mortgages taken by the primary banks are assigned to the apex land mortgage bank as security for the loans advanced by the latter. Thus the security for the bank issuing the loans is ample.

To begin with, loans have been advanced mostly for the redemption of old debts. As long as relief from indebtedness is the immediate and pressing need of the agriculturist, this feature of the business is bound to persist. The bank negotiates with money-lenders and creditors through private conciliation boards, taking advantage of the anxiety of the lender for the repayment of his money in order to effect a reduction in the amount to be repaid. The outstanding loans due from the primary banks increased from Rs. 23.88 lakhs to Rs. 27.93 lakhs in the year ending 30 June 1941.

Apart from the substantial assistance in the shape of a guarantee of both principal and interest on the debentures floated by the Provincial Co-operative Land Mortgage Bank, the Government of Bombay have agreed to grant the following concessions: (a) exemption from (i) stamp duty, (ii) registration fees, and (iii) income-tax on the profits of the bank and dividends on shares, as in the case of other co-operative societies, and (b) the grant of an annual subsidy to cover any deficit which may occur in the working of the bank in the first three years up to a maximum of Rs. 10,000 in the first year, falling to Rs. 6,000 in the third. This is in addition to the cash subsidy of Rs. 5,000 per annum to the primary banks with a view to enable them to meet part of the cost on account of the employment of land valuation officers lent by the Government to the banks. To safeguard their interests and generally to ensure the sound working of the banks the Government are represented on the board of the apex bank by the Registrar, and on the boards of primary banks by a nominee of the Registrar. These concessions have been modelled on the lines now in operation in the Madras province.

The membership of the Provincial Land Mortgage Bank is open to individual persons as well as primary banks and co-operative societies. Although this composite membership is a departure from the strict orthodox co-operative pattern, the inclusion of individual members is to be welcomed, since their presence will ensure better confidence in the bank on the part of the investing public and secure strict adherence to business principles. Any tendency towards dividend-hunting is prevented by the by-laws which require 25 per cent of the net profits to be carried to the reserve fund and restrict the maximum dividend payable on shares to  $6\frac{1}{4}$  per cent. Moreover, provision has been made for giving adequate representation on the board of directors of the apex bank to the primary banks, which are authorized to elect five directors (out of a total of 15), voting by groups in five constituencies.

The membership of the primary land mortgage banks is not restricted to borrowing members only. The non-borrowing shareholders are given separate representation on the board of directors. The by-laws of the primary land mortgage banks provide for the nomination of the board of directors by the Registrar for the first three years.<sup>1</sup>

§33. Operations of land mortgage banks.<sup>2</sup>—The operations of land mortgage banks in India during 1944–5 are illustrated by the following statistics :

Number of Banks or Societies	..	..	..	289
Number of members	..	..	..	138,709
				Rs.
Share capital	..	..	..	51,28,197
Debentures from the public	..	..	..	3,74,59,432
Debentures from Government	..	..	..	5,99,517
Deposits	..	..	..	17,88,377
Reserve and other Funds	..	..	..	28,62,734
Loans	..	..	..	3,01,40,007
Total working capital				7,79,78,264

Loans made to

Individuals	..	..	..	..	39,68,037
Banks and Societies	..	..	..	..	38,77,304
Profit	..	..	..	..	4,98,539

§34. Limitations of land mortgage banks.—There is great need for caution in dealing with this admittedly difficult and delicate problem of rural credit. Great care needs to be taken to avoid bad debts and arrears. 'Where the primary banks are cautious, the provincial bank must be doubly cautious, for it is the financial foundation of the whole organization.'

We must clearly realize certain inevitable limitations of the land mortgage banks. In the first place, it is evident that they cannot transfer to themselves the entire agricultural debt. The maximum limit on loans, and other restrictions on them, which are essential, the possession of the tangible security of land and the careful selection of borrowers in themselves make such a transfer impossible. Secondly, the land mortgage banks can only reduce the burden of debt by transferring it to themselves and by reducing the interest rate : they cannot remove it altogether.<sup>3</sup> Only the prudent cultivator will benefit by the facilities granted for the liquidation of his debts in small instalments. Unless he practices all-round thrift,

<sup>1</sup> See By-laws of the Bombay Provincial Co-operative Land Mortgage Bank, Ltd., and By-laws of the Primary Land Mortgage Bank (Leaflet LL).

<sup>2</sup> Statistical Statements Relating to the Co-operative Movement in India for the years 1941–2 and 1942–3, pp. 32–3.

<sup>3</sup> It is, however, rather an unpleasant revelation that debt conciliation and land mortgage credit, instead of being complementary to each other, are tending to be competitive, and that well-meant debt relief legislation is hampering the progress of

avoids unproductive debts especially for ceremonial expenditure, and makes efforts to increase his earnings, the prospects of the entire elimination of old debts are not bright. In order that the agriculturist should be enabled to improve his earning capacity a comprehensive scheme of economic planning and rural reconstruction is necessary.

The Reserve Bank of India has pointed out<sup>1</sup> the risk which land mortgage banks are running in devoting their almost exclusive attention to the liquidation of old debts of their members. The main purpose of the long-term loans raised on the security of land should be the improvement of land and agriculture and the introduction of better methods of cultivation. These banks are rightly advised to take a greater part in supplying finance, at a lower rate than loans for other purposes, for land and agricultural improvement in co-operation with the Agricultural Department. It is also a good plan that the person, whose debt is to be paid by the land mortgage bank, should be made to serve a period of probation with a good primary agricultural credit society and that even after the land mortgage bank has advanced him a loan he should continue to be a member of a multi-purpose society, so that the regular payment of his instalments may be ensured by a proper supervision of his activities. Some such arrangement is all the more necessary having regard to the unwelcome tendency towards the growth of overdues even in the case of land mortgage banks. Lastly land mortgage banks should establish close contacts with all other agencies working for the economic uplift of the farmer and become part of the wider movement towards rural reconstruction.

§35. Commercial land mortgage banks.—The Central Banking Enquiry Committee and the Agricultural Credit Department of the Reserve Bank of India have recommended the development of well-organized commercial (joint-stock) land mortgage banks in this country for the benefit of the numerous classes of landowners who cannot be adequately served by the co-operative credit organization. Provincial Governments might assist such banks by providing a portion of the initial capital, and by guaranteeing the interest on the debentures issued by them. The need for such mortgage institutions is particularly felt in provinces where Permanent Settlement prevails. Such banks should undertake the redemption of debts of the landlord class and finance their long-term requirements.<sup>2</sup>

land mortgage banks in several provinces. Surely this anomaly should disappear. *The Indian Co-operative Review* (April-June, 1941), pp. 216-17. See also §32 (ii) and ch. ix. §10.

<sup>1</sup> *Statutory Report on Agricultural Credit*, pars 27-30, and *Review of the Co-operative Movement in India* (1939-40), pp. 38-9.

<sup>2</sup> See *Report of the Central Banking Enquiry Committee*, pars. 233-4, and the Reserve Bank's *Preliminary Report on Agricultural Credit*, par. 19.



## CHAPTER XI

### *THE STATE IN RELATION TO AGRICULTURE*

§1. The evolution of the Agricultural Departments.—The idea of improving agriculture by means of a special Government department was first mooted in connexion with the Orissa famine of 1866. It was later on taken up by Lord Mayo's Government, but materialized only in 1884 as a result of the recommendations of the Famine Commission of 1880, and, let us also add, of the representations of the Lancashire cotton industry which was interested in the growth of long-staple cotton in India. Agricultural Departments were established in the various provinces under Directors, Deputy Directors, Superintendents and Overseers. Although the earlier idea was to take up agricultural inquiry, famine relief and land improvement, little was done beyond a certain amount of statistical work. Unfortunately the Departments were saddled with a good deal of work not properly belonging to them, for example the work of keeping land records and the supervision of land registration. They were further handicapped by the meagre grants allotted to them. We have already referred to the visit of Dr Voelcker in 1889.<sup>1</sup> He held the opinion that Indian agriculture was not so primitive and backward as often alleged, but that it was ill-equipped from the point of view of modern agricultural practice, and he emphasized the value of agricultural education and improvement. In 1892 an agricultural chemist to the Government of India was appointed. The finances of the Departments were in the meanwhile improved by the princely donations given by H. Phipps, an American visitor, and Sir David Sassoon. In 1901 an Inspector-General of Agriculture was appointed to advise the Imperial and Provincial Governments. This for the first time gave the Imperial Agricultural Department the services of an expert head in agricultural matters. The post was abolished in 1912 and its duties were entrusted to the Director of the Agricultural Research Institute, Pusa, who was also until 1929 the Agricultural Adviser to the Government of India. The Pusa Institute was established in 1903, together with a college for more advanced training and special short practical courses. It was in 1905 that, thanks to the tireless zeal of Lord Curzon, the organization of the Departments was greatly improved, they were relieved of the extra work with which they had been burdened, and larger funds were set apart for the development of agricultural experiments, research, demonstration and instruction. The Agricultural College at Poona was started in 1908 together with a research institute to relieve the congestion in the Agricultural classes attached since 1878 to the Science College, Poona. In subsequent years similar colleges were established at Cawnpore, Nagpur, Lyallpur, Coimbatore and, more recently, Bapatla.

<sup>1</sup> *Ante*, p. 203.

As a result of the extension in recent years of the use of agricultural machinery, especially for irrigation, agricultural engineers have been appointed to advise cultivators and to arrange for the installation of the necessary machinery. Lastly, an all-India Board of Agriculture was founded in 1905 with the object of bringing the provincial Departments more into touch with one another, so that they could discuss at their annual meetings programmes of work and make recommendations to the Government of India. The centralized control by the Government of India over provincial Departments was considerably relaxed as a result of the Reforms of 1919, and since 1921 agriculture has been under the control of provincial Governments. The Central Ministry of Agriculture now concerns itself only with agricultural problems of all-India importance, and maintains the following institutions: (i) the Agricultural Research Institute, which was transferred from Pusa to New Delhi in September 1936; (ii) the Imperial<sup>1</sup> Institute of Veterinary Research, Muktesar; (iii) the Imperial Institutes of Animal Husbandry and Dairying, Bangalore and Wellington; (iv) the Imperial Cattle-breeding Farm, Karnal; (v) the Creamery at Anand; (vi) the Imperial Cane-breeding Station, Coimbatore; and (vii) the Sugar Bureau, originally at Pusa, but transferred to Cawnpore in 1931 and placed in charge of a Sugar Technologist. The advisory functions of the Agricultural Adviser to the Government of India, who was previously responsible for the administrative control of these institutions, have been transferred to the whole-time members of the Imperial Council of Agricultural Research, which was established in July 1929 in accordance with the recommendations of the Royal Commission on Agriculture.<sup>2</sup> As recommended by the same body, separate directors have now been appointed for the Imperial Institute of Agricultural Research, Delhi, and the Imperial Institute of Veterinary Research, Muktesar. The post of Agricultural Adviser to the Government of India was abolished in October 1929. The Imperial (now Indian) Council of Agricultural Research has also assumed responsibility for the agricultural publications previously edited by the Agricultural Adviser and the Council of the Pusa Research Institute.<sup>3</sup> Reference has already been made to the creation of the post, in April 1934, of Agricultural Marketing Adviser to the Government of India, who is the head of the central marketing section of the Indian Council of Agricultural Research.

To supplement the work of and co-operate with the Agricultural Departments, certain other bodies have been started, e.g. the Agricultural Associations in the various provinces. In recent years efforts have been made to co-ordinate the work of rural development, including agricultural

<sup>1</sup> For the word 'Imperial' the word 'Indian' has now been substituted in the designation of all these all-India institutions.

<sup>2</sup> See §10 below.

<sup>3</sup> The Research Council at present publishes three journals, *The Indian Journal of Veterinary Science and Animal Husbandry*, *The Indian Journal of Agricultural Science*, and *Agriculture and Live-Stock in India*.

improvement, by setting up in many provinces and States provincial or State rural development or village uplift boards consisting of the heads of Departments connected with rural development such as Agriculture, Co-operation, Irrigation, Industries, Forests, Education, Public Health, etc., and also of non-officials. The best illustration of the policy of using both the Co-operative Department and the non-official machinery for promoting the work of the Agricultural Department is furnished by the provinces of Bombay and the Punjab, where the work of rural development has been transferred to the Registrar of Co-operative Societies, who in Bombay is also designated as the Director of Rural Development (see §7 below). Bombay has, besides, Taluka Development Associations in some of the talukas.

§2. Functions of the Agricultural Departments.—The provincial Departments of Agriculture carry on experiment and research on agricultural farms and in laboratories, and organize propaganda to secure the adoption of new methods and improved implements. They also concern themselves with the introduction of new and artificial manures and the production, maintenance and distribution of pure seeds of improved varieties of crops. Demonstrations are conducted on Government farms or fields of cultivators.

In our survey of the principal crops of India, we have already noticed the useful work that has been done by the Agricultural Department, especially with reference to wheat, sugar-cane, groundnut, cotton, tobacco and fodder crops. Jute, potatoes, rice, etc. are some of the other important crops which are engaging the attention of the Department. The following table gives the area in acres under the principal improved varieties of crops in 'British' India and Indian States so far as information is available.<sup>1</sup>

Crop			1928-9	1935-6	1937-8
Cotton	...	...	3,963,991	5,059,932	5,671,559
Wheat	...	...	4,126,905	6,970,855	6,930,068
Rice	...	...	976,913	3,669,097	3,758,947
Jute	...	...	1,143,665	1,121,019	1,781,069
Sugar-cane	...	...	499,890	3,244,336	2,855,379
Other crops <sup>2</sup>	...	...	1,464,528	2,118,424	2,979,041
Total..			12,175,892	22,183,663	23,976,063

The table shows that the area reported to be under improved varieties in the year 1937-8 was nearly double as compared to the area in 1928-9. This has appreciably increased the annual yield of the agricultural crops

<sup>1</sup> *Review of Agricultural Operations in India* (1928-9), p. 14 and *Agriculture and Animal Husbandry in India* (1937-8), p. 15. Figures for 1928-9 and 1935-6 are inclusive of Burma.

<sup>2</sup> Includes groundnuts (417,442), millets (347,200), gram (83,762), potatoes (20,996), etc. in 1937-8.

of the country. This is welcome so far as it goes, but it does not go far enough. The vastness of the ground yet to be covered will be seen when we reflect that, out of the total sown area of 73 million acres under rice, less than four million or 6 per cent is under high-yielding varieties of paddy, though the position in respect of wheat, cotton and jute is more satisfactory. In recent years the area under improved varieties of paddy and sugar-cane has shown a considerable increase thanks to the research work on rice and cane now being done under the auspices of the Indian Council of Agricultural Research. The Advisory Board of the Imperial Council of Agricultural Research at its meeting in March 1942 adopted a proposal to place an additional one million acres under improved varieties of rice in the next three years having special regard to the public demand that India's dependence on Burma rice should be reduced progressively and to the facts revealed in the marketing survey of rice. The relatively satisfactory situation in respect of cotton is due to the work of the Indian Central Cotton Committee which has its own separate finances. This indicates the necessity of creating bodies for the improvement of other crops as well. The Agricultural Commission emphasized the need for such a committee for jute, and it was established in 1936. The All-India Crop Planning Conference (1934) recommended that machinery should be provided for the systematic and continuous study of the problems relating to the cultivation of India's more important crops such as wheat and rice through the agency of special appropriate committees. This recommendation was accepted by the Government. There was a long-standing complaint that the Agricultural Department was concentrating its reforming energies on the export crops, to the comparative neglect of non-export crops like jowar, bajra, fruit and vegetables, which are quite as important both from the point of view of food requirements of the population and the profit of the agriculturist. The Indian Council of Agricultural Research is, however, now devoting increasing attention to some of these requirements, especially the development of fruit-growing. For example, in the Bombay province the Council has financed important investigations on the conditions under which the principal Indian fruits can be stored and transported.

§3. Demonstrations of new methods and improved implements.—In addition to the economic work on crops, research and investigation have been set on foot under departmental auspices bearing on fundamental problems of agricultural chemistry, agricultural bacteriology, plant pathology, mycology and entomology. Among the investigations in progress may be mentioned those dealing with the lime requirements of soils, the reclamation of saline lands, the conservation of soil moisture, dry farming, the fixation of nitrogen, the manufacture of artificial farmyard manure, the nitrification of manures in the soil, the utilization of the sources of natural indigenous phosphates, the detection of adulterants in ghee, animal nutrition, the mosaic disease of sugar-cane, and the control of pests infesting food-grains.

In Western countries the great utility and educative value of agricultural shows and exhibitions is well understood and the enormous expenditure on them is regarded as excellent investment. India has only just begun to realize the importance of holding periodical shows. The first Bombay Presidency Agricultural Show held at Poona in October 1926 was the largest ever held in Asia. Besides holding such big shows as frequently as possible, smaller shows for divisions, districts and talukas must also be organized so as to give full recognition to variations in local conditions and needs, and to carry the lessons of the shows to every nook and corner of the country.

The Agricultural Departments are thus doing useful work in various directions and are gradually gaining in knowledge and experience. The progress of reform, however, has been very slow. This is to be attributed to some extent to red-tapism, and this the Agricultural more than every other Department must endeavour to shake off. More important reasons, however, are the inadequacy of the capital at the command of the agriculturist, the insufficient irrigational facilities and the general ignorance and conservatism of the people. To these must be added the paucity of funds placed at the disposal of Agricultural Departments. The net expenditure of the Central and the Provincial Departments of Agriculture amounted, during the year 1939-40, to less than Rs. 3 crores as compared to the total expenditure of about Rs. 214 crores, which means that a very small percentage of the revenues of the country is spent on the development of its chief and basic industry. This stands in marked contrast with the very liberal expenditure on agricultural improvement in foreign countries, such as the United States of America and Japan. The improvement in the budgetary position before the outbreak of the war in 1939, the lively interest in agricultural matters shown by Lord Linlithgow as Viceroy, and by the Ministers of Agriculture in the Congress Governments in the provinces (before their resignation in 1939), the urgency of new agricultural problems created by the war and the present food scarcity have galvanized the Agricultural Departments into unwonted activity.

§4. Other items of state aid.—Other items of state aid may be briefly reviewed.

(i) *Land policy*.—The salient features to be noticed in this connexion are the security of title to the land conferred upon agriculturists and the protection granted to tenants in zamindari and more recently in other areas by special legislation. (See chapter xii.) Among other privileges conferred by the state on the cultivator has been that of freedom of transfer which, however, as we have seen, has not proved an unmixed blessing and has had therefore to be restricted by special legislation. Land revenue policy will be examined in a separate chapter. State assistance in the shape of direct Government construction of irrigation works and the grant of takkavi loans to enable the agriculturist to undertake various permanent improvements on his own behalf have already been discussed.

(ii) *Tariffs*.—One aspect of tariff manipulation, namely, export duties on food-stuffs, raw materials and manures, has been discussed and the bearing of the various proposals in this connexion on agricultural prosperity has been made sufficiently clear. As regards import duties, the question assumed some importance in the years before the 1939–45 war owing to the competition of Australian wheat in the Indian markets. The Wheat Import Duty Act of 1931, which was renewed in subsequent years, was intended to give relief to the Indian wheat-grower. A more important case is that of the Indian sugar industry, which has already been examined above. The refined sugar industry is of sufficient national importance to justify the protective import duties levied in 1932 as recommended by the Tariff Board. The Indian rice-grower also had to be protected against the imports of cheap broken rice by the levy of an import duty in 1935. The present food shortage has completely changed the nature of the problem. Far from discouraging imports of foodstuffs, India is desperately anxious to secure them at almost any price.

The part played by the state in the spheres of credit equipment, co-operation, and marketing has already received detailed treatment in previous chapters.

§5. *Agricultural education*.—The general principles governing the problem of rural education in its relation to agricultural efficiency have been already indicated. It now remains to give some account of the educational machinery provided by the state.<sup>1</sup>

(i) *Agricultural colleges*.—There are at present six colleges established in different provinces, viz. at Poona, Coimbatore, Bapatla, Nagpur, Cawnpore, and Lyallpur, and more are likely to be started all over the country in the near future. These colleges are intended to train the future personnel of the Agricultural Departments as well as to provide teaching in modern methods for those actually engaged or intending to engage in farming, either as land-owners or agents. Moreover, they are the provincial centres for scientific research in agriculture. Apart from full degree courses, the colleges also provide short courses of one or two years leading up to a diploma or certificate in agriculture. These courses are meant for practical agriculturists, but incidentally they also afford a recruiting ground for appointments to the subordinate agricultural service. Post-graduate training in agriculture is provided for at the Indian Agricultural Research Institute, New Delhi.

(ii) *Agricultural middle schools*.—The agricultural vocational middle schools are intended to give special training to the sons of farmers. Agricultural middle schools are, strictly speaking, technical or craft schools providing a course in agriculture of a practical character, and receiving pupils at about the age of 13 after they have undergone a course of general

<sup>1</sup> For a detailed account of the system of rural education prevalent in India, see *Agricultural Commission Report*, Minutes of Evidence, vol. I, pp. 114–18, Memorandum of J. A. Richey, Educational Commissioner with the Government of India; *Report*, ch. xv; *Agriculture and Animal Husbandry in India* (1937–8), pp. 242–53.

education. In these schools, education is imparted in the local Indian language. The object is to send the pupils back to their land so that they may utilize their training in cultivating it more efficiently, but it is feared that this object is generally not attained. Other complaints are that admission to these schools is not sought by agriculturists with any noticeable eagerness, that they are too expensive and are an artificial addition to the educational system and in no way a natural development of it, though Bombay claims that these schools have proved a success.

(iii) *Agriculture as a subject in the general curriculum.*—Practical instruction in agriculture is not attempted in the primary schools, which are content with providing for simple nature study intended to create a general bias in favour of life in the villages. Agricultural or Rural 'Bias' Schools are being increasingly recognized to be an important step towards adapting the educational system to the needs of the rural community, and in the Punjab and the United Provinces definite action has been taken to see that teachers are properly trained. Similarly in the Bombay province 93 schools have recently started classes with an agricultural bias, and the majority of students are reported to have taken to agriculture in their respective villages. Further extension of these schools is made difficult owing to lack of trained teachers.

Instead of starting agricultural middle schools like the other provinces, the Punjab has introduced the teaching of practical agriculture in the vernacular middle schools, so as not to debar students taking agriculture from proceeding to a higher stage of education if they desire to do so. Farms are attached to schools where agriculture is taught, and have generally met with considerable success, and the whole scheme is likely to be adopted by other provinces as well. The Agricultural Commission showed marked hostility to the Bombay type of school mainly on the ground of disproportionate expense and a strong preference for the Punjab type as pointing to the true solution of the problem of relating the instruction given in middle schools in rural areas to their environment. They hoped that these schools would develop into rural community centres. As regards high schools in rural areas, the Commission recommended the addition of a more advanced course in agriculture to their curricula. It may be added here that agricultural classes were attached to three High Schools at Satara, Bijapur and Godhra respectively in the province of Bombay in 1939-40. Special agricultural training courses in different aspects of agriculture, e.g. poultry-farming, horticulture, etc., are also arranged for the benefit of cultivators and are becoming increasingly popular.<sup>1</sup>

The reorientation of educational policy on the lines of the Wardha scheme is likely to have far-reaching effects on agricultural education in the country. (See ch. viii, §2 *ante*.)

The account given above shows that although the Government have done something for agricultural development in this country they can

<sup>1</sup> *Annual Report of the Department of Agriculture, Bombay (1939-40)*, pars. 75-6.

do much more. Nor has the educated class yet learnt properly to appreciate the vital importance of agriculture. Social workers have so far devoted almost exclusive attention to towns and their problems. The work started by some societies like the Servants of India Society in backward rural areas is promising, but it needs to be carried out on a large scale. In order to ensure continuity of policy and steady pressure over a long period, work done through properly organized societies is preferable to individual effort.<sup>1</sup> Most Indian universities have hitherto neglected the study of agricultural economics except at the agricultural colleges. As the Agricultural Commission pointed out there are two directions in which the universities can make themselves useful, firstly, in regard to such technical matters as economic surveys of social conditions and, secondly, in imbuing rural communities with ideals of leadership and service.<sup>2</sup>

§6. Village uplift: the Gurgaon experiment.—As the Agricultural commission truly remarked, no substantial improvement in agriculture can be effected unless the cultivator has the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws and good administration may place at his disposal. Of all the factors making for prosperous agriculture, by far the most important is the outlook of the peasant himself. The demand for a better life can be stimulated only by a deliberate and concerted effort to improve the general conditions of the countryside, and the responsibility for initiative in this matter rests with the Government. What is required is an organized and sustained effort by all those departments whose activities touch the lives and the surroundings of the rural population.<sup>3</sup> The sympathy, interest and active support of the general public are also essential. The whole weight of those who seek to guide the villagers should be thrown into suggestions as to how by corporate action they can improve the amenities of the village. In order, however, that the cultivator should revive the ancient tradition of concerted action for the improvement of the village and its surroundings, enlightened leadership is necessary. One way of providing this is by instilling ideals of village improvement into the thousands of village officials and dignitaries such as the patel and patwari. Another solution is the system of village guides introduced by F. L. Brayne in the Gurgaon district in the Punjab. The idea is that it would be an advantage to the cultivators to have some *one* reliable individual to look up to instead of a bewildering multiplicity of agencies. He would act as a channel through which the advice of experts in the various departments would pass on to the villagers.

But village guides will require the constant stimulus of new ideas and

<sup>1</sup> *Agricultural Commission Report*, par. 425.

<sup>2</sup> *ibid.*, par. 426.

<sup>3</sup> *ibid.*, par. 423. Mr Brayne gives an account of the Gurgaon experiment and explains his methods of rural uplift in his books: *Village Uplift in India* (1927), *Remaking of Village India* (1929), *Socrates in an Indian Village* (1929), *Socrates Persists in India* (1932), and *Better Villages* (third edition, 1945).



their work will need to be encouraged and appreciated if they are not to lapse into inactivity. The Gurgaon uplift scheme therefore attempted to supply 'a strong central driving force that will encourage enthusiasm, develop public spirit, and provide suitable material for active workers in their campaign in favour of the improvement of village life'.

In his *Rusticus Loquitur* Mr (now Sir Malcolm) Darling took occasion to review Mr Brayne's work in Gurgaon and make comments, sympathetic in tone, but damaging in substance.<sup>1</sup> The Gurgaon experiment was novel in the sense that 'never before in any part of India was propaganda for village improvement used so intensively and over so wide an area, never before combined with such full use of official authority'. It was hoped that it would serve as a valuable object-lesson for similar attempts elsewhere. Unfortunately, however, the experiment did not prosper in the manner expected by its originator. One important reason for its failure was that, while the whole programme of improvement was practically forced on the reluctant but docile villager, not all its details had been carefully thought out. Again, the village guides who were expected to act as village leaders were 'hurriedly selected', 'insufficiently trained' and 'inadequately supervised', and on account of their extreme youth and ignorance they failed to command influence with the villagers. It must further be admitted that sufficient account was not taken of the diversity of local conditions. The fact was that Mr Brayne was anxious to achieve something great and to achieve it quickly. Within the short period of his Deputy Commissionership he was determined to cure for ever the squalor of the villages and 'establish a *fait accompli* to the satisfaction of the district and of the world at large'. A superficial and inadequate study of the relevant circumstances of every village to which the reforms were applied was the necessary consequence. Another cause of the partial collapse of the experiment was that there was too much intensive but crude propaganda and too little real teaching.

The Gurgaon experiment may be taken to enforce the following lessons : (i) Before any changes are advocated we must make quite sure that they are really useful and practicable. Grounds of opposition to them, if any, should be fairly and impartially considered. (ii) The problem of village improvement cannot be successfully tackled through individual effort. A permanent organization is essential 'to ensure continuity of policy and steady pressure over a long period', to secure a fair hearing for all points of view, and to prevent unduly hasty action. The example of the rural area of Rae Bareilly in the United Provinces, where village and district bodies and agencies have been created to foster village uplift, is instructive in this connexion. (See also §7.) Liability to error is incidental to all human planning. But the mistakes will be fewer and less serious in the case of organizations than in the case of individual enthusiasts. (iii) Re-

<sup>1</sup> Darling, *Rusticus Loquitur*, pp. 121-8, 155-9. See also D. Spencer Hatch, *Up from Poverty*, ch. i and *passim*.

form should as far as possible come from persuasion and education rather than by the use of force, open or veiled. It should, however, be remembered that resort to compulsion may sometimes be necessary, e.g. to overcome the opposition of a recalcitrant minority. (iv) Darling's criticism of the methods adopted by Brayne is in the main just and sound. But to the unwary reader it is likely to convey the idea that all that can safely be attempted at present is to provide facilities for education and, for the rest, to leave the village alone. But this smacks too much of *laissez-faire*. The question of rural uplift in India is too urgent to be dealt with on merely passive lines. It is necessary to undertake a definite, well-planned and persistent campaign if substantial progress is to be achieved within a reasonably short time.

§7. Recent schemes of village improvement.—Widespread and keen interest in rural uplift has been in evidence during the last few years. The movement towards rural reconstruction received its first definite encouragement with the announcement in 1935-6 of a grant of Re. 1 crore by the Government of India for distribution to the provinces to be spent on schemes for the economic development and improvement of rural areas. The work of rural reconstruction (stimulated by the establishment of popular Ministries in the provinces) done in the different areas aims at encouragement of village industries, improvement of village communications, rural sanitation and recreation, medical aid, agricultural improvements, etc. Rural reconstruction centres have been organized for intensive work in specially selected areas, some of which have achieved notable results in the direction of improving the social and moral life of the people and giving a lead to the countryside in the matter of general uplift. Much useful work is being done by various non-official organizations; including some educational institutions, as well as by individual philanthropists. Mention has already been made of the co-ordination of rural development work through rural development or village uplift boards consisting of officials and non-officials. Special rural development officers have been appointed in certain areas.<sup>1</sup>

By way of illustrating the village uplift organization and the rural reconstruction work which is being carried on in the various provinces and States, mention may be made of the two schemes of village uplift in Bombay. The first scheme was initiated by Sir Frederick Sykes during the last year (1933) of his Governorship. A programme of village uplift was issued, laying down the lines on which the requisite organization comprising officials and non-officials was to be set up in the various divisions, districts, talukas and villages in the Presidency.<sup>2</sup> The several agencies and departments concerned with rural improvement were to be linked up into a single organization in order to infuse into them fresh vigour and usefulness. The principal agency for carrying out village improve-

<sup>1</sup> *Review of the Co-operative Movement in India* (1939-40), pp. 86-7.

<sup>2</sup> Subsequently published as an official blue book called *Manual of Village Improvement*.

ment under this new Bombay scheme was to be the District Rural Uplift Committee with the Collector of the district as the Chairman and the President of the district local board as the Vice-Chairman. The senior local officers of the various departments concerned and prominent non-officials were also placed on the Committee. The function of the Committee was to control and co-ordinate the work of village improvement in all its branches, viz. education, agriculture, housing, health, litigation, indebtedness and cottage industries. This scheme, while it made encouraging progress especially in the Central Division, was handicapped by lack of adequate funds and the absence of a full-time rural development officer for the district.

A more comprehensive scheme of rural development and reconstruction was unfolded by Mr A. B. Latthe, Finance Minister, in a Budget speech (February 1939). In view of the intimate contact of the Co-operative Department with the rural population and its problems, the Government of Bombay decided to combine the newly created Rural Development Department with the Co-operative Department and placed it in charge of the Registrar, Co-operative Societies, who was also called Director of Rural Development. To ensure co-ordination between various departments concerned with work in the rural areas the field staff of these departments was transferred to the combined Co-operative and Rural Development Department. But subsequent experience led the Government to separate the two departments. The necessary co-ordination is now effected through the Collector, who is held responsible for controlling the rural development staff placed under him. The district staff doing the propaganda work in the Rural Development Department has been distributed among the Revenue, Agricultural and Co-operative Departments, and the expert officers of the Agricultural Department were retransferred to their original department. But the marketing staff, consisting of the Chief Marketing Officer, four Assistant Marketing Officers and ten Marketing Inspectors appointed for facilitating the organization of new regulated markets in the districts under the Bombay Agricultural Produce Markets Act (1939), continued under the control of the Registrar of Co-operative Societies. While the latter continues to be designated 'Registrar of Co-operative Societies and Director of Rural Development' under the re-organized scheme of 1941, he has ceased to be responsible for the rural development work in the districts which, as already stated, has become the responsibility of higher Revenue Officers. Steps taken to bring about co-ordination between various departments in rural development work may be pronounced as effective since even the Forest, Police and Excise departments are now interested in this work.

The work of the Rural Development Department is being carried on through the District Rural Development Boards constituted originally in 1939. Under the revised constitution of these Boards the Collector of the district is the Chairman of the Board and officers of different departments in the district are *ex officio* members. There are, in addition, a

number of non-official members, either nominated by the Government or elected under the rules of the District Rural Development Boards. The management of the affairs of the Boards is entrusted to an Executive Committee, with the Collector as chairman. In several districts there exist Taluka and Village Improvement Committees, which are constituted to carry out the rural development work in their respective areas.<sup>1</sup>

The Rural Development Department has the benefit of advice by the Provincial Board of Rural Development, which as reconstituted in 1941 consists of members, partly *ex officio* (being heads of Government Departments concerned with rural economy), partly elected by bodies such as District Rural Development Boards and co-operative organizations, and partly nominated by Government. The Adviser in charge of Rural Development is the Chairman of the Board, whose main function is to advise the Government on general principles and policy regarding rural development and cognate matters.

Rural assistants are being appointed for propaganda work in the villages, after suitable training to enable them to function as village guides and work as secretaries of the village multi-purpose societies and village panchayats. Five centres for imparting the necessary training have been established in the province.

The Rural Development Department reported varied and useful activities in the year 1940-1 relating to the following matters: prevention of erosion of soil, extension of dry-farming methods, manures, introduction of improved practices and implements, distribution of improved seeds, control of insect pests, diseases of crops, horticulture, improvement of live-stock and poultry, markets and marketing, shows, irrigation facilities and water supply, better communications, medical aid, sanitation and education, including physical training and village libraries, demonstrations and classes. Three uplift vans were maintained in the three Revenue Divisions, to tour the villages; at each halt a small show was arranged, and talks on sanitation and public health were given.<sup>2</sup>

Similar interest in village uplift is being evinced in other provinces, for example, in the Punjab, the United Provinces, the Central Provinces and Berar, Madras, and Bengal.<sup>3</sup> The Punjab has the benefit of a Rural Development Commissioner to look after the work of village uplift. Village panchayats are being established in several provinces, and states such as Mysore and Baroda have done something to promote rural reconstruction work. The rural uplift movement received a stimulus from the deliberations of the Provincial Economic Conference (1934). But the most striking gesture was made by the Government of India, which, as already stated, set apart a crore of rupees (from the budget surplus in 1935) for distribution to the various provinces for the economic develop-

<sup>1</sup> *Annual Administration Report of the Rural Development Department, Bombay, 1940-41*, pp. 1-5.

<sup>2</sup> *ibid.*, p. 37.

<sup>3</sup> See Strickland, *Rural Welfare in India* (1936), and *Review of the Co-operative Movement in India* (1939-40), pp. 85-8.

ment and improvement of rural areas. The Central Government's grant, which was repeated in the following year, gave a fresh stimulus to provincial rural uplift programmes, especially those relating to agricultural improvement, rural sanitation, and hygiene. These central grants can, however, supply only a small fraction of the large funds required to finance rural reconstruction work, and more funds must be made available by the various provinces concerned. As pointed out above, the Congress Government of Bombay gave a splendid lead to other provinces, and more substantial results may be expected in the near future.

§8. Royal Commission on Agriculture.—The Royal Commission appointed in April 1926 was the first commission appointed specifically to examine and report on the condition of agricultural and rural economy in India. Its recommendations (embodied in a comprehensive Report which was issued in July 1928) on a variety of questions affecting the welfare of the rural community in India have already been dealt with in their proper places. The labours of the Commission led to a general revival of interest in agriculture and a fuller realization of its supreme importance to India. The Report also did useful service in recording in one place the measures already initiated in the different provinces for tackling problems of rural uplift. Hitherto the provinces were generally content to plough their lonely furrows without much mutual help, knowledge or consultation. The Report induced greater co-operation among them and a greater desire to learn from each other.

The process of implementing the recommendations of the Commission is inevitably slow and difficult, and all the resources of the Government and the community will have to be patiently mobilized for many years to come before rural India can hope to turn her back on the deep shadows and emerge smiling and prosperous into the radiant light of day.

§9. Government action on the Report: the Simla Conference.—At the Agricultural Conference consisting of provincial representatives (Ministers of Agriculture, Directors of Agriculture, Registrars of Co-operative Societies, etc.) which met at Simla in October 1928, the main recommendations made by the Commission were discussed, the action already taken by the various provinces in respect of some of the recommendations was ascertained, and emphasis was laid upon the financial implications of the Commission's proposals which made immediate or simultaneous adoption of them impossible. The Commission's Report was accepted as the basis for rural reconstruction and agricultural advance and for the progressive application of the recommendations as the circumstances of each province might permit.<sup>1</sup> The recommendation regarding the Imperial Research

<sup>1</sup> We have already dealt with the recommendations made by the Agricultural Commission regarding agricultural marketing and the action taken on them by the Central and Provincial Governments (see ch. viii, §§24-5). Recommendations made by the Commission on other aspects of the rural economy of India have been dealt with in appropriate places in the several chapters on Agriculture in this volume.

Council to be set up and financed by the Central Government was approved of in general terms.<sup>1</sup>

§10. The Imperial (Indian) Council of Agricultural Research.—As the Agricultural Commission truly remarked, the basis of all agricultural progress is experiment. 'However efficient the organization which is built up for demonstration and propaganda, unless that organization is based on the solid foundations provided by research, it is merely a house built on sand.' An all-India council of agricultural research (the Imperial Council of Agricultural Research) was created in 1929 and registered as a society under the Registration of Societies Act (1860), a step which gives it a considerable measure of financial independence. Its primary function is to promote, guide and co-ordinate agricultural research throughout India. It is a body to which the central and provincial Ministries of Agriculture look for guidance (without administrative control) in all matters connected with research, and to which such research programmes as they might choose are submitted for approval. It acts as a clearing-house of information in regard to agricultural and veterinary matters, and serves to link research work in India with that in other parts of the Commonwealth and in foreign countries. It has to make arrangements for the training of research workers.<sup>2</sup> This central body is split up into two parts: the first, a Governing Body presided over by the Minister for Agriculture and consisting of the provincial Ministers of Agriculture, three representatives of the central legislature, two representatives of commercial interests, two members elected by the Advisory Board (see below) and a whole-time Vice-Chairman who is the principal administrative officer of the Council; and the second, an Advisory Board, having as its work the examination of proposals in connexion with scientific objects. The Board has as its chairman the principal administrative officer of the Council, and as its members, two whole-time officers, one agricultural and the other veterinary, and a number of nominated and elected scientific members, such as heads of the provincial Agricultural and Veterinary Departments, together with representatives of the Indian universities, the Indian Central Cotton Committee, the Co-operative Societies, etc. The Governor-General-in-Council has the right to nominate additional members both to the Governing Body and the Advisory Board as need arises. The Council (that is, the Governing Body and the Advisory Board sitting together) met in June 1929 to settle certain preliminary matters and formally registered itself as a society under the Registration of Societies Act. The Advisory Board meets twice a year. The actual business of the Board is continuous throughout the year; but its duties are largely carried on by special committees. At present the following standing committees of the council are at work: the Sugar Committee, Rice Committee, Wheat Committee, Fertilizers Committee, Locust Committee,

<sup>1</sup> *Agricultural Commission Report*, pp. 3-4.

<sup>2</sup> Memorandum of Association of the Imperial Council (Society) of Agricultural Research.

Soil Science Committee, Dry Farming Co-ordination Committee, Oil Crushing Industry Committee, the Joint Committee of the Indian Council of Agricultural Research and the Indian Central Cotton Committee, the Animal Nutrition Committee, the Dairying Committee, the Cattle Breeding Committee and the Central Fodder and Grazing Committee.<sup>1</sup> The Advisory Board reviews all the schemes of research submitted by provincial Governments, universities and private institutions and decides which ought to be taken up, how to deal with each problem, and in what part of India the special work upon it could best be done. Since March 1942 the Board has decided upon certain changes in its methods of work. In addition to its normal function as a clearing-house for ideas emanating from the provinces and States, it adopted the role of a brain trust and now initiates its own schemes and co-ordinates all research work. What is even more important, it decided for the first time to go beyond the stage of demonstration farms and to select a number of villages in certain provinces in which to bring about the application by farmers themselves of the various results of researches under expert guidance. The decisions of the Advisory Board are subject to the sanction of the Governing Body and the views of the Society as a whole. It is the Governing Body which controls the Council's funds. The central headquarters in Simla have been linked up with the new Indian Agricultural Bureau, intended to keep research workers in all parts of the British Empire in touch with the latest research work in their own subject. The Indian Society pays a small subscription towards the upkeep of the bureaux and has a representative on their controlling body. The Governing Body has also started a research and reference library at Delhi.

Among the important whole-time officers of the Council are the Vice-Chairman (the Principal Administrative Officer), the Secretary, the Agricultural Commissioner with the Government of India, the Animal Husbandry Commissioner with the Government of India, the Agricultural Marketing Adviser, the Director, Indian Institute of Sugar Technology, Cawnpore, and the Statistician.

Among the problems to which attention is being given by the Indian Council of Agricultural Research are those connected with rice, sugar technology, cane-breeding, fruit and dry-farming research, agricultural marketing, manurial research, locust research, potato-breeding, animal husbandry, etc. Grants are made to universities to enable workers on university staffs to expand research of agricultural importance or to develop the agricultural aspect of other research.

The Government of India in the first six years following the inception of the Council gave more than one crore of rupees for research work on agriculture. Apart from the administrative budget grant of the Research Council, the Government gave Rs. 50 lakhs for general research work, Rs. 20 lakhs for research on sugar, Rs. 25 lakhs for marketing schemes at

<sup>1</sup> See *Agriculture and Animal Husbandry in India* (1937-8), p. 8.

the centre and in the provinces, Rs. 6 lakhs for a new dairy research institute, making a total of about Rs. 101 lakhs. To this must be added Rs. 14 lakhs annually for five years for the Institute of Sugar Technology at Cawnpore (Kanpur).

In order to place the Indian Council of Agricultural Research in a more secure financial position and to provide for the steady development of research, a larger and more stable income, which would be comparatively unaffected by the financial vicissitudes of the Government of India, was considered necessary. This has recently been arranged by the levy of a  $\frac{1}{2}$  per cent export cess on the value of certain agricultural commodities (such as cereals other than rice and wheat, fruit, fish, seeds, raw hides and skins, etc.) which were not already subject to an export duty or cess. The new export cess was provided for by the Agricultural Produce Cess Act, 1940.<sup>1</sup> It may be added that the cost of the Council's office, sugar-cane research and the work relating to the agricultural marketing organization will continue to be met from the central revenues as before.

As recommended by the Agricultural Commission, provincial research committees have been formed by all the provinces. These work in co-operation with the Indian Council of Agricultural Research and report on any applications from within the province for a grant by the Research Council. Such committees are important in promoting and co-ordinating research directed to rural improvement within the province. The Council has largely fulfilled the object for which it was brought into being. Provincial reports show that the Council's grants have done much to enable agricultural research to be maintained and somewhat extended during a period of financial stringency by supplementing provincial effort, enabling gaps to be filled and encouraging co-ordination of effort, although financial considerations have prevented the Council from doing as much as the Royal Commission on Agriculture expected it to do.

§11. *The Russell-Wright Inquiry.*—In 1936-7, in pursuance of the recommendation of the Agricultural Commission in favour of a periodical review of the work of the Imperial Council of Agricultural Research, the Council invited two specialists from England to report on the work done by it and to make suggestions for future work. The experts selected for the purpose were Sir John Russell, Director, Rothamsted Experimental Station, and Dr N. C. Wright, Director, Hannah Dairy Research Institute, Scotland. Their reports contain useful recommendations for bridging the gulf between the research worker and the cultivator. Other recommendations relate to the methods for tackling insect pests; dry-farming research schemes; the need for work on cash crops to be done in association with expert buyers or users of these crops and for work on food crops in association with nutrition experts; the establishment of a Soil Conservation Committee and of a Crop Protection Committee to deal with the consideration of cropping schemes on the lines adopted by the Crop

<sup>1</sup>*Review of the Trade of India (1939-40)*, p. 105.



Planning Conference (1934), to arrange for the working of control measures in relation to insects, pests, noxious weeds, etc.; development of research, education and advisory services relating to dairying and cattle improvement. Increased financial assistance to the Imperial Council of Agricultural Research was strongly recommended with a view to enabling it to bring to fruition investigations which at present stop at the experimental stage. As already pointed out, the Agricultural Produce Cess Act (1940) placed increased financial resources at the disposal of the Council.<sup>1</sup>

§12. Need for more food-production and planned development.—During the 1939–45 war the interruption of imports of rice from Burma, the growing defence requirements of India and her military commitments, the general dislocation of the domestic market caused by unprecedented transport difficulties, together with decreasing production of rice and wheat, led to a shortage of foodstuffs and a sharp rise in their prices. Quite apart from the acute difficulty as regards food supply caused by the war, the fact must be faced that India's population has been increasing rapidly without simultaneous and proportionate increase in her production of food-grains. There is therefore imperative need for a well thought out agricultural policy for the entire country and for the planning of agricultural production on a co-operative nation-wide scale. The Government of India have established a fund for assisting the cultivator of short-staple cotton to change over to alternative and more profitable crops—possibly food crops, having regard to the shortage of food.

The 'Grow More Food' campaign launched by the Government is said to have resulted in an additional outturn of 750,000 tons of foodstuffs. The cost of the campaign in 1945–6 was Rs. 2 crores in loans and Rs. 1.7 crores in grants. As part of the campaign 7,000 tube well have been sunk and more than 3,000 tanks and 4,000 other minor irrigation works are under construction. All-India plans and policies in respect of education, agriculture, food, roads, railways and aviation have been announced and special bodies like the Central Technical Power Board, and the Central Waterways, Irrigation and Navigation Commission have been set up to deal with important aspects of development.

<sup>1</sup> For further particulars, see *Agriculture and Animal Husbandry in India* (1937–8), p. 10.

## CHAPTER XII

### LAND TENURES AND REVENUE

§1. Historical survey of land revenue in India.<sup>1</sup>—From very ancient times the state in India claimed a share of the produce of the soil from the cultivators. The Laws of Manu mention one-sixth of the gross produce, that is, of the grain heap on the threshing floor, as the legitimate share of the king, though the proportion might rise to one-fourth in times of war and other emergencies. The plan of fixing a certain share of the gross produce offered many advantages in an early stage of society. Whatever the land produced was heaped on the threshing floor and, in the presence of the king's officer, the share of the state was abstracted from the heap. The demand of the state varied automatically with the outturn and no elaborate system of suspensions and remissions of the revenue was necessary. But the disadvantages of the plan are equally obvious. With the growth of population and extension of cultivation, the task of collecting land revenue in kind becomes increasingly difficult. Unless a large staff of officers is employed to supervise the division, the cultivators will conceal or make away with the grain, or local collectors will batten on it at the expense of the cultivator and the state. The grain may lie rotting on the threshing floor if the officer of the king delays coming to supervise the division. These disadvantages sooner or later compel the adoption of alternative methods of collection. For instance, an estimate of the standing crops may be made and the share of the state fixed accordingly, irrespective of the actual outturn realized at the harvest, which may or may not agree with the estimate. This and similar devices gave place eventually to payment in money—a development hastened by the rapid expansion of some of the Muslim kingdoms which rendered collection in kind under the old system unworkable.<sup>2</sup>

The Institutes of Timur represented the first systematic attempt in the direction of commuting the state's share of the produce into money. The next attempt was made by Sher Shah (1540–5), but his labours remained uncompleted owing to the shortness of his reign. The third and the most famous settlement was made under Akbar by his able finance minister, Todar Mal. A more scientific and detailed system of investigation into the taxable capacity of different soils was undertaken as a necessary preliminary to the fixation of the revenue demand. Land was carefully measured and divided into four classes representing different grades of

<sup>1</sup> For further particulars, see *Report of the Land Revenue Commission, Bengal* (1940), vol. I, pars. 13–40, and vol. II, 'Note on the Indian Land System' by Dr Radha Kumud Mukerji.

<sup>2</sup> See *Taxation Enquiry Committee Report*, par. 53.

fertility. The Government share was fixed at one-third of the gross produce. Option to pay in cash based on the average prices of food grains during 19 years preceding the settlement was given, and the term of the settlement was fixed at nine years.

Thus the Moguls did not introduce any fundamental changes in the ancient revenue system of the Hindus, but merely reduced the customary and unwritten usages of the Hindu administration to a coherent system. They are, however, to be credited with the introduction of regular records and revenue accounts for the purpose of gaining definite knowledge about the financial resources of the state. In the Deccan, similar developments took place, notably under Malik Amber of Ahmednagar, who established certain revenue rates called the *ain* ('the thing itself') or essential rates, being one-third of the cash value of the gross produce. The Marathas accepted these rates as the basis of their system, raising them to what they called the *hamal*, that is, maximum or perfect rates payable only by the best lands. In the majority of cases, the assessment was not permanent, but in the Deccan, 'the *miras*<sup>1</sup> tenure had fixed assessment as one of its incidents. The *mirasdar* held his land on permanent heritable tenure subject to the payment of a fixed assessment, which he was liable to pay whether the land was cultivated or not.'<sup>2</sup> In many cases the actual assessment was further enhanced by the levy of a number of cesses. This development was found to have taken place all over India, wherever the authority of the central Government had declined. The proportion of the cesses to the standard assessment ranged between 33 and 50 per cent in some cases, as in Bengal, according to the calculation of Sir John Shore.<sup>3</sup>

The next most important feature of the history of land revenue and tenure is the appearance of revenue farming, a factor of great significance in the development of the local system of land tenure in more than one province. The institution was designed to ensure a steady flow of income into the treasury of the central Government, which in the declining days of the Mogul Empire became more and more incapable of controlling the revenue officials in the outlying parts of the empire. This system became fairly general in Bengal from the reign of Emperor Farukhsiyar (1713-19). Under it the revenue farmer paid the Government nine-tenths of the whole collection and kept the rest as his remuneration. But later on a further stage of degeneration was reached, when the right of collecting land revenue for a pargana or district was sold by public auction to the highest bidders, who were held responsible for payment of the amount thus fixed in one lump sum into the Government treasury, retaining for

<sup>1</sup> Under the Marathas, there was also a well-defined tenure called *upri*. The *upri* was a tenant-at-will of the Government liable to enhancement of assessment and at liberty to take as much land every year as he wished to cultivate. He paid assessment according to the crop he obtained.

<sup>2</sup> Keatinge, *Rural Economy in the Bombay Deccan*, p. 3.

<sup>3</sup> See *Taxation Enquiry Committee Report*, loc. cit.

themselves any surplus over it. In practice revenue farmers squeezed out of the cultivators as much as they could, paying to Government as little as they could. In some cases, the Hindu chieftains or rajahs subdued by Mogul arms were made revenue farmers under Imperial warrant. Although at first the office of the revenue farmer was not hereditary and was subject to the supervision of the state officials, it tended to become hereditary as the control of the central authority relaxed. The revenue farmer gradually consolidated his position by taking full advantage of the political disorganization and of the special opportunities for self-aggrandizement which it held out to him. He pretended to be proprietor of his charge by first of all cultivating the large waste area in addition to his own (*sir*) land, and later on by buying out small neighbouring cultivators by fair means or foul. It thus happened that by the time of Lord Cornwallis the revenue farmers had evolved into a powerful body hardly distinguishable from full proprietors. As Roberts puts it in his *Historical Geography of India*, 'the zamindari<sup>1</sup> which was originally a hereditary contract agency for the collection of revenue became something resembling a landlord estate'. The general dislocation in administration during the later years of Mogul rule and the chronic financial embarrassment of the Government made the position of the revenue farmers stronger and stronger, as they were the only source of ready money for the Government to draw upon. The official organization for controlling land revenue administration having disappeared, the revenue farmers' operations were entirely unchecked, and the Government were so demoralized that they had neither the power nor the desire to mitigate the oppression and extortion of the villagers at their hands.

Revenue farming, at first confined to the Mogul Empire and more particularly to the province of Bengal, soon extended to other parts of the country for similar reasons, and even the Marathas, whose revenue system under Nana Farnavis during the latter half of the eighteenth century was universally recognized to be extraordinarily efficient and equitable, adopted it under the incompetent rule of the last Peshwa soon after the death of Nana Farnavis. It must be noted, however, that though the system thus came to be widespread, its effects were not uniform. In northern India, where it was introduced earlier and where the central authority weakened faster, they were more complete and lasting, as shown by the growth of the zamindari rights in Bengal. In other cases no permanent traces were left, as for example in the Deccan, except in the outlying districts of the Konkan where the khots who were at one time revenue farmers acquired landlord rights. Midway between the two extremes, as in the United Provinces, the revenue farmers succeeded in acquiring only certain overlord rights. The same was more or less the case in the Punjab. The net result of revenue farming and of the general disorder characterizing the

<sup>1</sup> All revenue farmers irrespective of their origin were called zamindars and sometimes talukdars—terms which did not necessarily imply any definite proprietary right in the land.

revenue administration was seen in the increasing complexity of land tenures and rights, and the steady departure from former revenue practices, such as a regular survey and assessment, which had been prevalent since the days of Akbar. All this made the task of the new British administrators very difficult in the absence of any rational plan for administering the land revenue. It was quite natural therefore that mistakes were made in the beginning, and many years had to pass before a tolerable system was evolved for the various provinces.

§2. Three kinds of land tenure.<sup>1</sup>—Apart from the intrinsic interest of the subject of land tenures, it is necessary to understand it properly, because without an adequate knowledge of it, the systems of revenue settlements prevalent in different provinces can scarcely become intelligible. The type of tenure, that is, the way in which land is held, determines, for instance, the person or persons responsible for the payment of the land revenue, that is, the form of settlement, the various gradations of interest and rights in land, their recognition and interrelation and the nature of the unit of assessment adopted.

'The system of land tenure in India exhibits almost every conceivable variation, from immense estates, containing thousands of tenants, to minute holdings of well under an acre in size. It is nevertheless possible to classify the holdings into certain fairly well-defined groups.'<sup>2</sup> The following are the three main types of land tenure in India. (i) First, we have the various forms of landlord tenure, where one person or at the most a few joint owners are made responsible in one sum for land revenue on the whole estate, as in Bengal. (ii) Secondly, there are the smaller estates, essentially of the same character as the first, but with certain distinguishing features. They are village estates which are held by co-sharing bodies or village communities, the members of which are treated as jointly and severally liable for the land revenue. We have here to deal with a collective or 'ideal' landlord. (iii) Lastly, land may be held in single independent holdings owned severally, though aggregated locally in villages, the individual holders being severally responsible for the payment of the revenue. These three kinds of tenure are called (i) zamindari, (ii) joint village (village community) or mahalwari, and (iii) ryotwari, respectively.<sup>3</sup>

§3. Two main forms of village constitution.<sup>4</sup>—It is now necessary to em-

<sup>1</sup> For a good deal of the purely descriptive part of this chapter, we are indebted to B. H. Baden-Powell, *Land-Systems of British India*, and also to his *Land-Revenue and Tenure in British India*.

<sup>2</sup> See *India in 1930-I*, p. 169.

<sup>3</sup> The Famine Inquiry Commission classified the major systems of land tenure in India as follows: (i) The permanently settled estate system; (ii) the temporarily settled estate system; and (iii) the ryotwari system. Under (iii), revenue is fixed on individual pieces of land and the actual occupants, recognized as possessing a permanent and heritable right of occupancy, are liable for its payment. Under (i) and (ii) the 'estate' is the unit and the holder of the estate, not the actual occupant, is responsible for the payment of the land revenue (*F. I. C. Final Report*, p. 251).

<sup>4</sup> For the interesting but controversial question of the origin and of the forms of

phasize the distinction between villages in India as regards their internal constitution, a factor which has an important bearing on the nature of the land tenure and, through the land tenure, on the form of the revenue settlement. There are two distinct types of villages in India, namely, the ryotwari or severalty and the landlord or joint village, the latter being further subdivided into a number of interesting minor varieties.<sup>1</sup>

(i) *The ryotwari village*.—The internal constitution of the ryotwari village is comparatively simple. Land is owned and cultivated separately by the various owners, each of whom may have inherited or bought his holding, or cleared it from the original jungle. The aggregate of these separate cultivators, owners and their holdings makes up the ryotwari village. The waste land of the village is the property of the Government, though it may be used by the villagers for grazing, wood-cutting, etc. Land revenue is assessed on each separate holding and the responsibility for its payment is individual. Apart from subjection to common village officials and the common enjoyment of the services of the village artisans and menials, there are no further points of contact among the villagers. It follows from all this that the importance of the headman or patel and, in general, of the village officials is greater in the ryotwari village than in the landlord village. This form of village is universal in Madras, Bombay, Berar and Central India, and was also prevalent in the Central Provinces and Bengal before the super-imposition of malguzari and zamindari rights respectively.

(ii) *The landlord or joint village*.—The landlord village, so called, may be owned by a single individual landlord or a body of co-sharers who may represent a group of ancestrally connected families claiming to be regarded collectively as the landlord of the village as already existing, or as established by their own foundation, but in either case the village is treated as a single unit. The individual or the collective landlord has pretensions to be of higher caste than and superior title to the other cultivating tenants, though sometimes the co-sharers may themselves cultivate the estate. The waste land of the village is the property of the village community as a whole, so that it may be rented to tenants and the rents divided among the members of the community, or it may be partitioned or brought under cultivation without the leave of the Government. The whole estate is assessed to one sum of land revenue for which the whole body of co-sharers are jointly and severally responsible, although special exemption from joint responsibility may be secured and the individual share of land revenue may be separated out by a particular co-sharer with the permission of the Government. The common affairs of the village were originally managed by panchayats or representative bodies consisting of the leading co-sharing families. Strictly speaking, there is no single village headman, although an individual may be selected as the lambardar

the village in India, see Baden-Powell, *Land-Revenue and Tenure in British India*, pp. 88-90.

<sup>1</sup> See Baden-Powell, *Land-Systems of British India*, vol. I, ch. iv.

to represent the village community in its dealings with the Government, especially in connexion with land revenue settlement. This type of village is particularly strongly developed in the Punjab and is mostly connected with Mohammedan ideas as contradistinguished from the ryotwari village, which is associated with Hindu government and Hindu ideas. It is also found among the Jat, Gujar and other tribes in the central Punjab, as well as among the conquering Aryan tribes and descendants of chiefs and nobles in other parts.

§4. Constitution and types of joint or landlord villages.—Turning to further details of the internal constitution of such villages, we may refer to three distinct varieties depending on the principle according to which the co-sharers allot the land or the profits and produce of the land. (i) First of all we have ancestral villages, where there is the ancestral or family share system under which each member of the co-sharing body takes the fraction of the whole which his place on the genealogical tree points out. There are the following types of ancestral villages: (a) villages held by a joint body undivided as in the case of a joint undivided family, (b) those divided under the ancestral share system (*pattidari*), and (c) those partially divided on the ancestral system (imperfect *pattidari*). (ii) Secondly, there are non-ancestral villages where there are special customary systems of sharing under the true *bhaiachara*<sup>1</sup> principles of (a) sharing in equal lots made up artificially of various strips of land, (b) sharing by ploughs, in which land is assigned according to the number of ploughs owned, or (c) with reference to shares in water, or (d) shares in wells. In all these cases, however, allotments are still regarded as shares of a jointly owned whole. (iii) Thirdly, there is the system of *de facto* holdings where there is no specific rule of sharing, and the existing holdings are recognized as such.

In the ancestral villages, the revenue burden is proportioned to the fractional share in the estate, more or less nearly and in principle, while in the case of the non-ancestral forms, the revenue burden is proportioned to the actual holdings according to the *bhaiachara* or *de facto* holding principle.

These three different rules of sharing must be regarded as being the outcome of one or other of the three possible ways in which all joint or landlord villages have been formed, namely, (i) they were either bodies who have jointly succeeded to a village at first held by one common ancestor, who in his turn may have been either a founder, or a grantee, or a revenue farmer, or again a ruling chief reduced to the position of a landlord as in the United Provinces, or (ii) they are bodies made up of a certain number of families belonging to an immigrating or conquering clan which allotted the area according to its customary methods, or (iii) they are merely co-operative colonizing groups formed under circum-

<sup>1</sup> The term *bhaiachara* is officially used in a more general sense and covers all variations of the non-ancestral landlord villages.

stances which led them to establish cultivation on the joint-stock principle.

It may be noted here that over the village landlord bodies a superior overlordship may occasionally arise as in the case of the Oudh and Agra talukdars, who are overlords over a number of village communities. The latter, however, retain the same essential principles as in the case of independent village communities. The origin of these overlord rights is similar to that of the independent landlord villages themselves.

§5. Landlord estates including more than one village estate.—Some landlord estates extend over a larger area than a village, perhaps a whole district or pargana, although the component villages even here do not lose all their importance. The origin of these bigger landlord estates does not present any special features and is accounted for as in the case of village estates. The present land-holder may be a descendant of a former territorial chief or ruler, or of a revenue farmer or other land official, or of a grantee of the state, jagirdar or inamdar. Such landlord estates owned by zamindars exist on a large scale in Bengal, and in Oudh and Agra to some extent, where we have the talukdar class. They are quite exceptional in the Punjab. In the Central Provinces, the estates of the special class of landlords called *malguzars* occupy a very large proportion of the total area of the province, but they are not landlords in the Bengal sense. In Bombay, there is a variety of landlord estates. Apart from the class of jagirdars and inamdars, there are the Gujarat talukdars and *khotas* on the west coast of the Deccan coming under this category. In Madras, especially in the northern part, there are several great zamindars of the Bengal type.

This survey of the (proprietary) land tenures in India brings out the enormous complexity and great variety of forms that have been developed as the result of several historical factors, such as wars and invasions, tribal and local conquests, the rise and fall of ruling families and so on. To the right by first clearing, which must have been originally of primary importance, has been super-added the right by conquest, grant or natural superiority, etc.

§6. Sub-proprietary and tenant rights.—In this process of super-imposition of rights one upon another as the result of conquest, grant, or revenue farming, as new overlord rights may be created so also original proprietary rights may degenerate into sub-proprietary or tenant rights. In some cases, the ex-proprietors were able to maintain a privileged position even under an overlord, and the recognition of the person at the head as the proprietor made the recognition of others below also necessary. The confusion that characterized landed rights, specially the large number of grades of landed rights, made the recognition of these rights very difficult.

In the ryotwari tracts, the question was very simple in the absence of any considerable overgrowth of rights. In most cases the cultivator was also the landlord. Where tenants were employed there was no doubt



that they were ordinary contract tenants created by the owner and therefore not requiring any legal recognition. In a few cases at the most, there might be a loose overlord right which could be sufficiently provided for by the payment of a fixed rent charge by the actual proprietor. But in the zamindari tracts and the joint village estates, the position was much more complex, a number of intermediate grades having come into existence. Baden-Powell gives the table below to illustrate the various interests that may intervene between the Government, with their revenue rights and their occasional direct ownership of land as the fountain-head of rights at the top, and the actual cultivator, wherever he has any permanent right to occupation, at the bottom.<sup>1</sup>

One interest	Two interests	Three interests	Four interests	
1. The Government is the sole proprietor.	1. The Government. 2. The ryot or 'occupant' with a defined title (not a tenant) as in Madras, Bombay, Berar etc.	1. The Government. 2. A landlord (zamindar, talukdar or a joint village body regarded as a whole). 3. The actual cultivating holders, individual co-sharers, etc.	1. The Government. 2. Landlord. 3. Sub-proprietors, or tenure-holders 4. The ryot or actual cultivator.	1. The Government. 2. An overlord or superior landlord. 3. An actual proprietor or landlord (usually a village body). 4. The actual cultivating holders, individual co-sharers, etc.

(i) *Sub-proprietary rights*.—The main characteristic of the sub-proprietary tenure is that the holder is the owner in full as regards his particular holding but has no part in the whole estate or its profits and no voice in its management. The illustrations of this category are found in Bengal, where certain persons known as tenure-holders have been granted a privileged status of permanent, heritable and transferable tenure held at fixed payment, because they were able to maintain such a position in spite of the general predominance of the zamindar class. The difficulty of defining their status led subsequently to the adoption of the rule, made under the Act of 1885, that all those persons below the zamindar owning one hundred bighas of land were entitled to the status of a tenure-holder.

Another modern instance of such rights is provided by the class of patidars who were given a permanent managing lease for a part of the estate

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 129. Cf. 'In one estate in Bakarganj there are as many as thirty intermediate (between the proprietor and the cultivator) tenures one under another'—*Report of the Bengal Banking Enquiry Committee*, par. 17. 'The promise given by the East India Company never to alter the assessment [in Bengal] followed as it was by the gradual growth of the zamindars' profits, encouraged subinfeudation and brought into existence a body of tenure-holders vastly outnumbering the original zamindars'—*Report of the Land Revenue Commission, Bengal*, vol. I, par. 77.

by the zamindars who found their estates too unwieldy and were desirous of sharing their revenue responsibility with others. The pattidars in their turn often created tenants called dirpattidars endowed with similar privileges and charged with parallel revenue responsibilities. Such rights were recognized by the Bengal Regulation of 1819.

Still another class of sub-proprietors is found in those cases where the present proprietary landlord body has grown over an earlier group; certain families would be able to maintain their position paying only Government assessment and no rent to the superior landlord in respect of their holdings. In the Central Provinces, the artificial creation of the malguzars, under the influence of the earlier policy followed in upper India, of fixing revenue responsibility on one landlord for each village, even when originally ryotwari in character, necessitated the recognition of sub-proprietary rights. Lastly, in Oudh, occasionally entire village bodies were able to preserve their rights of independent management subject to the payment of a fixed rent to the overlord talukdar. Their sub-proprietary rights have been recognized by a separate sub-settlement with them fixing their rent payment to the talukdar with whom the main settlement is effected by the Government.

(ii) *Tenant-rights*.<sup>1</sup>—We may now proceed to deal with tenant rights, not of the ordinary contract tenants, but of those holding some privileged position. First we shall concentrate on a description of the features common to all the provinces (prevalent before the enactment of tenancy legislation after the inauguration of provincial autonomy in 1937) without entering into minute details relating to every particular province. The same general features that account for the rise of the landlord and overlord rights explain the existence of tenant rights of different grades. Those who are now classed as tenants in the case of landlord estates, joint or individual, must at one time have enjoyed a superior status. The more complete the landlord or the overlord rights and the greater the opportunities and time at the disposal of persons acquiring these rights, the more will the lower grades sink in point of status. Thus different grades of tenant rights would arise depending on the strength of the pressure exerted from above. There were two difficulties regarding the recognition and definition of these tenant rights by the British administration; one was that not in all cases was direct proof obtainable of a former superior status enjoyed by the tenants; and the second difficulty was that, besides persons entitled to recognition on the ground of a former proprietary status, were also other tenants who were in a sense a privileged class, because they were brought in by the landlords on a contract basis, but at a time when tenants were too valuable to be ejected. The result was that a distinction between natural and artificial tenants had to be adopted. The natural tenants were those in whose favour definite facts could be asserted and proved; the artificial tenants were those who were not able

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, ch. vii, section 5, and *Taxation Enquiry Committee Report*, par. 60.

to adduce any definite proof of the circumstances and origin of their tenant rights. To meet the case of the artificial tenants, the twelve-year rule was adopted in Bengal, Agra, and, to a limited extent, in the Central Provinces. In Bengal and Agra, the Tenancy Act of 1859 provided for the recognition of a tenant as occupancy tenant, if he had cultivated the same land continuously for twelve years. The Act was, however, evaded by landlords who made it impossible for any tenant to hold the same piece of land continuously for the required period, and it was therefore amended in Bengal in 1885. Cultivation was now required, not necessarily of the same piece of land, but of some land in the same village continuously for twelve years. The Tenancy Act of 1928 declared holdings to be transferable subject to a transfer fee, and the landlord was given the right of pre-emption. It further considerably strengthened the right of under-ryots and divided them into three classes entitled to different degrees of protection.<sup>1</sup>

In Agra, the Act was not formally amended as in Bengal (1885), but a number of restrictions were imposed by an Act passed in 1901, so as to prevent the landlord from defeating the provisions of the law.<sup>2</sup> The Act of 1901 was revised in 1926 on the lines of the amendments made in the Oudh Rent Act in 1921, viz., the conferment of life tenures on non-occupancy tenants and in return a large extension of the *sir* (home farm) rights of landlords. The heirs of the statutory tenants were allowed to hold on for five years. The addition thus made to the *sir* land was excessive. The Tenancy Act (1939) in the United Provinces seeks to restrict the *sir* land in the interests of tenants (see §9 (ii) below). In Oudh, occupancy rights, at first limited under the Act of 1886 to tenants who, having once enjoyed proprietary rights had lost them, were extended subsequently to ex-proprietors whose proprietary rights were transferred by sale or execution.

In the Punjab, the right of occupancy can be acquired only by tenants whose claims are based on certain historical grounds and not by mere lapse of time. The Punjab Act of 1887 defines occupancy tenants as those who, for two generations, have paid neither rent nor services to the proprietor, but only their share of Government assessment.

In the Central Provinces also, the twelve-year rule was applied at first, but later on it was given up in favour of an arrangement which allowed purchase of occupancy rights at two-and-a-half times the annual rental. This in its turn was superseded by another rule framed in 1920 which recognized two classes of occupancy tenants, both having transferable rights subject to certain conditions.

In the zamindari estates in Madras every ryot who possessed ryoti land (that is, land which is not the home farm or the *sir* land of the proprietor) at the time of the passing of the Estates Land Act of 1908 (modelled on

<sup>1</sup> Report of the Land Revenue Commission, Bengal, vol. I. par. 71.

<sup>2</sup> For further particulars regarding rent legislation in Agra and Oudh, see the Report of the United Provinces Banking Enquiry Committee, pars. 327-8.

the Bengal Act of 1885), and every ryot admitted by the landlord to the possession of ryoti land, has a permanent right of occupancy. His position has thus been assimilated to that of the occupant in ryotwari areas.

In Bombay, the special Act of 1880 dealing with the khots protected the old residential tenants in the same manner as occupancy tenants elsewhere. There are also other cases of special tenure, such as the talukdari tenure, which are dealt with under the Special Act of 1862.

§7. Other than occupancy tenants.—We have devoted so much attention mainly to occupancy tenants for the reason that they constitute by far the most important class of privileged tenants in landlord areas. It is necessary, however, to add that there are several other classes of tenants occupying a status in some cases higher and in others lower than occupancy tenants. By way of illustration, we may refer to the superior class of tenants in Bengal known as tenure-holders and already mentioned above, and ryots at fixed rates who can neither be ejected nor made liable to enhancement of rent. Similarly, in the United Provinces, in the permanently-settled districts of Benares, there are certain tenants at fixed rates. Again, in the Central Provinces, we have the class of 'absolute occupancy tenants' recognized at the first settlement as holding an exceptionally strong position. These cannot be ejected practically for any reason whatever. They pay a privileged rent which, moreover, is fixed by the Settlement Officer for the whole term of the settlement. On the other hand, there are certain inferior tenants comparable to the tenants-at-will in ryotwari areas but enjoying a certain amount of protection not available to the latter.

§8. General features of occupancy privilege.—We may now briefly indicate the nature of the protection enjoyed by occupancy tenants. (i) There is a limit to the enhancement of the rent both as regards the amount and the period which must elapse before it can be increased. Enhancement can occur only as a result of agreement or by decree of a court on specific grounds. The grounds for enhancement recognized by the court in the event of a suit are lightness of rent as compared with neighbouring land, advance of prices, or improvement in the productivity of land due to the enterprise of the proprietor, or to fluvial action. The tenant can sue for a reduction of rent on the ground of permanent deterioration of the soil or a permanent fall in local prices. In the Central Provinces, the rent is fixed by the Settlement Officer as in the case of absolute occupancy tenants, but not for the whole term of settlement, being liable to revision every ten years. In Madras, rent cannot be increased by more than twelve and a half per cent at one time. (ii) There are certain provisions protecting the occupancy tenant from ejectment except in special circumstances. Provisions in this connexion are really complementary to those in connexion with enhancement of rent. Either set of provisions would be useless unless supplemented by the other. (iii) The occupancy right is hereditary and can be alienated, that is, parted with, or transferred outside the family on certain conditions. (iv) There are certain laws of distraint

for rent, securing the exemption of cattle, tools, seed-grain and so on. Further, in every case proper notice to quit is required, and payment of rent is by instalments. (v) Remissions and suspensions of land revenue granted by the Government to landlords in a bad year must be followed by corresponding concessions granted to tenants by landlords. (vi) Lastly, the right to make improvements on the land without enhancement of rent is also protected within certain limits, or in the event of higher rent being charged, compensation must be allowed.

In short, the aim of these rules is to confer on tenants the privilege of the three F's—fair rent, fixity of tenure and free transfer—as in the case of the Irish land legislation. The conferment of the occupancy privileges on tenants thus makes their position comparable with that of owner-cultivators under the ryotwari system.<sup>1</sup>

✓ §9. New drive for tenancy legislation in zamindari provinces.—After the introduction of Provincial Autonomy on 1 April 1937 and the assumption of office by the Congress Party in eight provinces, opinion hardened against the institution of zamindari, resulting in measures for tenancy reform in almost every province. These measures are briefly reviewed below.

(i) *Bihar*.—Soon after the Congress Government came into power the Bihar Government initiated legislation calculated to redress the grievances of the peasants and confer on them rights and concessions which directly diminish the power and prestige of the zamindars, who were, however, discreet enough to read the signs of the times and agree to a compromise. Reduction in rents to the level of 1911, abolition of the method of recovering rents in kind, exemption of enhancement for a period of fifteen years, withdrawal of the zamindar's right of claiming damages in case of arrears of rent, the reduction in the rate of interest on such arrears to  $6\frac{1}{4}$  per cent, the conferment of hereditary rights including the right to dig wells, build houses and plant trees, on tenants who have occupied lands in a village for twelve years and protection against eviction—which is not permitted except in the case of land being rendered unfit for cultivation—are the principal features of the Bihar Tenancy Act (1938). The only right after all this that the landlord possesses is to get his rent from occupancy tenants. The number of non-occupancy tenants in the province is almost negligible.

(ii) *The United Provinces*.—The labours of the Congress Ministry, spread over two years, culminated in the passing of the United Provinces Tenancy Act, in December 1939, which consolidates and amends the tenancy laws of Agra and Oudh in the light of the findings of a committee appointed earlier to inquire into the problem of land tenure in the province. The most important provision of the Act is that which confers hereditary rights on all but a small fraction of such tenants as are not at present in enjoyment of occupancy rights. The most striking

<sup>1</sup> F.I.C.F.R., pp. 252-3.

addition to tenants with hereditary rights is obtained from tenants on *sir* (home farm) land, to whom under the present law no tenancy right accrues. The Act restricts the grant of *sir* rights (relating to tenancy at will) paying land revenue not exceeding Rs. 100 to small landholders and limits the area to 50 acres in the case of large landholders. The current rent rates were to remain in force for the time being, but were to be reduced within five years to the level of rents prevailing between 1896 and 1905. Once determined the rent rates were not to be ordinarily revised for a period of 20 years. Rent is to be remitted or suspended during periods of natural calamities and resettled during periods of economic calamity such as a slump in prices. Ejectment will be allowed only in case of prolonged default. The rate of interest on arrears of rent will be reduced to  $6\frac{1}{4}$  per cent per annum.

(iii) *Bengal*.—The Bengal Tenancy Act of 1938 provides for the abolition of illegal exactions and cesses levied on tenants, of the right of pre-emption enjoyed so far by the landlord (this right being given to co-sharer tenants instead), of the transfer fee (*salami*) payable to the latter and of the right to realize rent by certificate procedure. The tenant has been given the right to recover his diluvial land within 20 years on payment of only 4 years' rent. The under-ryot has been given rights similar to those enjoyed by occupancy ryots, and the rate of interest payable on arrears of rent has been reduced to  $6\frac{1}{2}$  per cent. The new Act further provides for the suspension of all provisions relating to the enhancement of rent for a period of 10 years.<sup>1</sup> The Act was regarded by the Bengal Government as a first step in dealing with the urgent grievances of tenants. A Commission was therefore appointed to undertake generally an examination of the existing land revenue system of Bengal in its various aspects with special reference to the Permanent Settlement (see §32 below).

(iv) *Central Provinces*.—The Congress Ministry in the Central Provinces succeeded in enacting the Central Provinces Tenancy Bill (1939) drafted in the light of the recommendations made by the Revenue Committee appointed earlier by the Government to consolidate the existing land revenue and tenancy law of the province.

§10. *Tenancy in ryotwari provinces*.—Here, as a general rule, there has until recent times been comparatively little artificial growth of a landlord or middleman class between the cultivator and the state. Therefore the necessity for recognizing the subordinate rights and varieties of tenancy which need such careful treatment in north Indian settlements has not been felt so urgently. As we have already seen, there are some landlord estates even in ryotwari provinces, as in the case of Madras zamindars or the Bombay khots and talukdars, and most of these cases, as we have just noted, have been provided for by special Tenancy Acts. As regards the ordinary contractual tenants under ryotwari holders either in Madras or Bombay, or any other province where the ryotwari system is mainly

<sup>1</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 68.

in force, there was until recently no special legislation intended to protect them from arbitrary rent enhancement or summary eviction, although, of course, the general tenancy law was available for enforcing the terms of an agreement, if any, between the two parties, or failing an agreement, the dictates of any particular usages of the locality in question. The increase in the number of tenancies, the passing of land into the hands of non-cultivating classes in consequence of the disintegration of the village community and deterioration of agriculture, and the excessive competition among tenants for land, leading to growth of rent rates, have gradually created a situation in ryotwari areas which needs to be met by tenancy legislation on lines similar to those adopted in zamindari provinces.

§11. The Bombay Tenancy Act (1939).—The Bombay Tenancy Act was passed in October 1939. It received the assent of the Governor-General in April 1940 and in 1941 came into force in selected areas in the province.<sup>1</sup>

As pointed out in the statement of the objects and reasons accompanying the Tenancy Bill, the provisions of the Bombay Land Revenue Code, 1879, and the Khoti Settlement Act, 1880, which regulated the relations between landlords and tenants in the province, had been found to be unsatisfactory in several respects.<sup>2</sup> Many tenants who had held the same land for generations had not obtained rights of permanency but continued to be tenants-at-will liable to be deprived of their tenancy at the will of their landlords, and had in consequence no incentive to make improvements, for which further they might be asked to pay higher rents. Even permanent tenants were sometimes subjected to levies sanctioned by local usage or custom and to forced or ill-remunerated labour. It was the tenants of large landowners, whether in khalsa or alienated villages, who were particularly exposed to these disadvantages. The Tenancy Act therefore gives special protection to tenants of such landlords.

The Act created a new class of 'protected tenants' and provided for the protection from eviction of those who had held land in tenancy continuously for a period of not less than six years immediately preceding 1 January 1938, and had cultivated such land personally during the afore-said period. Tenants evicted after 1 April 1937 were to be deemed protected tenants under certain conditions. The security of tenure is, however, subject to certain conditions, viz. the desire of the landlord to cultivate the land himself, or to use it for a non-agricultural purpose, failure by a tenant to pay rent, bad or injurious tenancy, sub-letting the land instead of cultivating it himself. A protected tenant is entitled to compensation on eviction where he has made any improvement on the land held by him, and his tenancy is transferable to his heirs under certain restrictions; but his rights cannot be mortgaged or otherwise alienated, nor will they

<sup>1</sup> In a Press Note issued by the Government of Bombay in April 1941 it is explained that in view of its complicated character, the numerous administrative problems of a complex nature presented by it and the substantial changes in the economic structure of the province involved in it, it is desirable to enforce the new Tenancy Act in selected areas.

<sup>2</sup> See *Bombay Government Gazette*, 26 August 1938, pp. 497-511.

be liable to seizure, attachment and sale by process of any court. The Act also provides procedure for determining the reasonable rent payable by the protected tenant in the absence of an agreement with his landlord or of local usage. The fair rent is to be determined by the mamlatdar in accordance with a specified procedure, and an appeal against his decision to a First-class Subordinate Judge is permitted.

The Act confers certain benefits on all classes of tenants. For instance, the exaction by landlords of any cess, rate, tax or service from any tenant other than the rent lawfully due is forbidden on pain of a heavy fine. For some areas the Government may fix the maximum rate of rent payable by tenants. Whenever the Government grants suspension or remission of land revenue assessments, landlords must give a corresponding suspension or remission of rent to their tenants. This provision, however, does not apply to crop-share rents.

All tenants are entitled during the continuance of their tenancy to the produce and wood of trees planted by them on their lands. They are also entitled to compensation for those trees on the termination of their tenancy. Relief against termination of tenancy is granted in certain cases.

Under clause 23 of the Act no agricultural lease can be made for less than ten years, in order that tenants may be encouraged to improve the lands and to secure a better return for their labour.

Further protection to tenants is granted by a Bill passed in October 1946 by the Bombay Legislative Council.

§12. What is a settlement?—The ground being prepared by a preliminary study of land tenures, we are now in a position to consider land revenue settlement. What is technically called a settlement of land revenue consists of the determination of (i) the share of the produce or the rental to which the state is entitled ; (ii) the person or persons liable to pay it ; and (iii) the record of all the private rights and interests in the land. As previously stated, the last item is particularly important in landlord areas, individual or joint, where there is a regular graduation of landed rights and interests that have to be recognized.

§13. Requisites of a settlement.<sup>1</sup>—Three principal stages in the process of land revenue settlement may be distinguished: (i) preparation of a cadastral<sup>2</sup> record ; (ii) assessment of revenue ; and (iii) collection of the revenue assessed.

(i) *The cadastral record.*—The cadastral record, which includes the village map, the fiscal or the revenue record, and the record of rights, is prepared by means of a detailed field-to-field survey of the land and the demarcation of the boundary lines so as to secure an exact account of the cultivable land, the extent of each kind of soil requiring its own rate of assessment, and the preparation of a correct record of rights. From this survey, a map is prepared for each village showing the separate hold-

<sup>1</sup> See *Imperial Gazetteer*, vol. IV, ch. vii.

<sup>2</sup> 'Cadastral' literally means showing the extent, and ownership of land for taxation.



ings and the area and nature of the cultivable and waste land. To correspond with the village map, a field register is usually prepared, and from these two, the fiscal or revenue record, showing a correct list of revenue payers with the amount shown against their names. These are supplemented by statistical tables and returns illustrating the past history and the present condition of the village. Lastly, a record of rights, either separate or as an adjunct to the revenue record, is prepared showing the tenure of land, and the various rights in the land, such as the rights of landlord, co-sharers, sub-proprietors, occupancy tenants, etc., as well as the rights created by mortgage, sale, lease and so on. All these records are kept up-to-date by a system of public entry and registration of all changes. The rights thus recorded are presumed to be legally valid until the contrary is proved.

(ii) *Assessment of revenue.*—In order to find the revenue demand there is a valuation of the land, the ascertainment of revenue rates and the totalling up and adjustment of them. This gives the sum payable by the estate or holding. In some cases, subsidiary proceedings to determine the distribution of this total among co-sharers and the adjustment of tenant rents are necessary.<sup>1</sup> The different bases for assessing revenue adopted in the various provinces will be considered presently.

(iii) *Collection of revenue:* (a) *Instalments.*—Land revenue is collected not in one sum but in instalments, so as to suit the convenience of the revenue payers. The average landlord, for example, cannot pay unless the harvest is reaped and the produce marketed. Another consideration governing the system of instalments is to avoid too great a demand for cash at one time, for this is likely to send prices down and raise rates of interest to inconvenient levels.

(b) *Procedure for the recovery of revenue arrears.*—In respect of recovery of arrears, there is a difference between tracts under Permanent Settlement and those under Temporary Settlement. In the former, the gift of the landlord right was accompanied by the rigorous condition that the revenue must be paid with absolute punctuality under threat of immediate sale of the estate—a course of action deemed to be preferable to the alternative of subjecting a great landlord to the indignity of personal imprisonment, or attachment and distraint of moveable property. In the Temporary Settlement areas, the procedure is less strict and the sale of land, instead of being the first step, is usually the last of a series of steps.

(c) *Suspension and remission of revenue.*—Though the assessment is fixed with reference to average seasons and conditions during the period of the settlement, exceptional disasters, widespread or local, such as floods, blight, total failure of rains or of other sources of irrigation, or collapse of prices of agricultural produce, etc., are apt to upset all calculations, even assuming that the agriculturist has the will and the power to utilize

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 148.

a good harvest as an insurance against a bad year, which is rarely the case. In these circumstances, relief graduated according to the degree of crop failure is necessary and may take the form of suspension, or remission (partial or complete). The suspended revenue may be recovered or remitted according to the nature of the succeeding harvest. Remission, partial or complete, is granted in the case of continued failure of crops over more than one year.

§14. Classification of settlements.—Settlements fall into two classes according to their duration. Where the share of the state is fixed in perpetuity, as in Bengal, it is called a Permanent Settlement; and where it is fixed temporarily for a definite period, it is called a Temporary Settlement. The period is 30 years in Bombay, Madras and the United Provinces, 20 years in the Central Provinces, and 40 years in the Punjab.

Settlements may also be classified according to the system of tenure. Corresponding to the three main kinds of tenure already indicated, and as influenced by them, there are three main kinds of settlement as follows :<sup>1</sup>

(i) Settlements for single estates under one landlord. Varieties under this heading are :

(a) Permanent Settlement with the zamindars in Bengal, north Madras and Benares.

(b) Temporary Settlement with the remaining zamindars in Bengal.<sup>2</sup>

(c) Temporary Settlement with the talukdars of Oudh.

(ii) Settlements for estates of proprietary bodies, usually village communities. These are called mahalwari settlements. Varieties (all varieties of this are on a temporary basis):

(a) The mahalwari settlement in the United Provinces of Agra and Oudh (where there are no talukdars but only village communities).

(b) The mahalwari settlement of the Punjab.

(c) The malguzari settlement of the Central Provinces.

(iii) Settlements for individual occupancies or holdings. Varieties (all varieties under this are on a temporary basis) :

(a) The ryotwari system of Madras.

(b) The ryotwari system of Bombay and Berar.

(c) Special systems (in principle ryotwari, but not officially so called) of Assam and Coorg.

<sup>1</sup> Despite the diversity of settlement systems, 'they are all alike in three respects. Firstly, the process of assessment is always preceded by the preparation of a survey map and record of rights; secondly, a soil classification is always made; and, thirdly, the assessment is no longer based on the gross produce, but on the net assets.'—Sir Edward Blunt, *The I.C.S.*, p. 131.

<sup>2</sup> A zamindari settlement is not necessarily also a Permanent Settlement and a ryotwari settlement is not necessarily a Temporary Settlement. Zamindari settlements are temporary, for example, in Oudh. Again, there is nothing to prevent a ryotwari settlement from being permanent, though, as it happens, there is apparently no actual instance of this.

Every settlement must thus belong to one or other of the three classes mentioned above and must be either temporary or permanent.<sup>1</sup>

§15. *Zamindari settlements: Permanent Settlement in Bengal.*—We have already seen how the development of revenue farming, particularly in Bengal, led to the supersession of the old ryots by a new body of landlords known as zamindars. We have also pointed out how, owing to the disruption of the Mogul Empire, the old regular system of revenue administration evolved by Akbar had fallen into hopeless decay, and the cultivators were ground down by the exactions of the zamindar on the one hand, and on the other, by the numberless extra imposts levied on the land by the provincial rulers. The position, if anything, was made much worse in the early years of the Company's rule after the grant of the Diwani in 1765. The confusion was worse confounded by Clive's dual government system, under which neither the Nabob's revenue officers nor the East India Company's servants felt any responsibility for the good government of the country, with the result that the people were oppressed by both and protected by neither. The supervisors of revenue appointed in 1769 to protect the cultivator from the exactions of zamindars, being young and inexperienced officers, did not in the least set matters right, especially as the kanungo, and the zamindars, who alone possessed the required information, refused to part with it. The terrible famine of 1770 served only to intensify the difficulties. The Court of Directors decided in 1772 to stand forth as the Diwan, and instructed Warren Hastings to assume the direct administration of revenue. He improved, to some small extent, the machinery of collection by appointing Collectors, and subsequently by creating Divisional, Provincial and Central Boards of Revenue. The change in the method of assessment, however, proved disastrous. At first quinquennial and then annual leases for the collection of revenue were sold by public auction to the highest bidders, setting aside the existing zamindars and encouraging the introduction of capitalists and speculators, who tried to screw out of the peasants the utmost they could by way of rents and additional illegal cesses on land. The deplorable state of the finances of the East India Company and its anxiety to give high dividends to its shareholders was at the root of the new system. It was chiefly to straighten out these matters and to relieve the agricultural distress in Bengal that Lord Cornwallis came out to India in 1786.

The most important measure of the administration of Lord Cornwallis is the Permanent Settlement of Bengal. The idea of fixing the state demand in perpetuity, first mooted by Francis and later on adopted by Fox in his India Bill, was ultimately recommended to the Indian authorities

<sup>1</sup> In 1928-9, the total acreage of ryotwari holdings was 334,598,000 or 51 per cent of the total area; of permanently settled zamindari or village community holdings 121,017,700 or 19 per cent of the total area; and of temporarily settled zamindari or village community holdings 198,902,000 or 30 per cent of the total area (*India in 1930-1*, p. 169).

by the Court of Directors in 1785, but it was left to Lord Cornwallis, assisted by Sir John Shore, to carry out the policy of Permanent Settlement in Bengal. After inquiries lasting for three years, a settlement was made with the zamindars, who were declared full proprietors of the areas over which their revenue collection extended, so that they might have some legal status which would enable them to fulfil their obligation to the Government, and to induce them to take an interest in their estates. This right was, however, subject to the payment of land revenue and to liability to have the estate sold for failure to pay, no excuses, such as drought or famine, being accepted for non-payment. The Government also reserved the right to introduce any measures they might think necessary 'for the protection and welfare of the dependent talukdars, ryots and other cultivators of the soil'. The assessment was fixed approximately at ten-elevenths of what the zamindars received as rent from the ryots, the remaining one-eleventh being left as the return for their trouble and responsibility. The revenue liability was fixed in a rough and ready fashion without any survey or record of landed rights and interests, or any investigation into the productive capacity of the different classes of soils. In 1793, in consultation with the Court of Directors, the settlement was declared permanent and the assessment unalterable for ever, and the Government specifically undertook not to make any demand upon the zamindars or their heirs or successors 'for augmentation of the public assessment in consequence of the improvement of their respective estates'.<sup>1</sup> The primary object of the East India Company was to safeguard the punctual receipt of the land revenue. For this purpose the expansion of cultivation was indispensable, and in the opinion of the Directors this could only be achieved by a permanent settlement. It may be noted here that while Sir John Shore was at one with Lord Cornwallis so far as the recognition of the zamindars was concerned, he would have preferred to wait for the decennial period of settlement already in force to run out before declaring the settlement perpetual.

§16. Criticism of the zamindari settlement of 1793 in Bengal.—The settlement thus effected is open to criticism on various accounts. In the first place, the essential preliminaries to any settlement, namely a detailed survey, classification of soils and the preparation of a record of rights were dispensed with. Secondly, it was thought impolitic to pry into the internal concerns of the estates and possibly to excite the distrust of the landlords. As for the ryots, it was hoped that the landlords would come to an understanding with them and protect their rights. Nevertheless, as Baden-Powell remarks: 'The fact that the Permanent Settlement was made without any survey, and without any record of landed rights and interests, has proved more fraught with evil consequences than perhaps any other feature of the settlement.'<sup>2</sup>

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 55. See also *Report of the Land Revenue Commission, Bengal*, vol. I, par. 44.

<sup>2</sup> *Land-Systems of British India*, vol. I, p. 289.

The second great defect of the Permanent Settlement was the failure to guard the rights and interests of the ryots, who suffered a double injustice, first, by losing their proprietary rights, and secondly, by being left almost entirely to the mercy of the zamindars, who proceeded to rack-rent them.<sup>1</sup> It was erroneously assumed that the rights of parties claiming an interest in the land were sufficiently established by the customs and usage of the country to enable the Courts to protect individual rights. There was, indeed, a general provision that leases or *pattas* were to be given to the ryots specifying the area as well as the terms and conditions of the holdings, but in practice this was of no avail, as the *pattas* could not be enforced and also, in some cases, because the ryots were unwilling to take them for fear of admitting their inferior position and of committing themselves to the acceptance of conditions which they did not quite understand. It must, however, be admitted that the sad plight of the ryots was in no small measure due to the extremely heavy assessment, which was exacted with great rigour under the existing Sale Law. In the event of default the estate was immediately sold by auction. That being so, it was necessary to assist the landlord in realizing the rents due from tenants to enable him to pay his Government dues with the absolute punctuality that was insisted upon. The zamindars were vested with wide and arbitrary powers of distraint under Regulation VII of 1799. Again, in many cases, the landlord, being unable to meet the state demand, had his estate actually sold. Naturally the successor insisted upon a clear title before he could be induced to purchase it. This meant a more complete supersession of the rights of the ryot and his subjection to more and more extortionate demands on the part of the newcomer. The tenant had to wait for nearly three-quarters of a century before any attempt was made through the tenancy laws of 1859 and 1885 to grant him redress from the grievous wrong he had suffered so long.<sup>2</sup>

It is often asserted that Lord Cornwallis being himself an English landlord, laboured under aristocratic prejudices and desired to create a landed aristocracy here similar to that in England, though the conditions of the two countries were widely different. The Permanent Settlement, however, was emphatically the work of the Company's middle-class servants. Quite possibly the fact that Cornwallis belonged to the English aristocracy made him readier than he otherwise would have been to accept the policy with which his name is associated. But it is certainly not true that he was its sole originator and protagonist. Besides, when he appeared on the

<sup>1</sup> 'The errors [of the Permanent Settlement] were twofold: they consisted, firstly, in the sacrifice of what may be denominated the yeomanry, by merging all village rights, whether of property or occupancy, in the all-devouring recognition of the zamindar's permanent property in the soil; and secondly, in the sacrifice of the peasantry by one sweeping enactment, which left the zamindar to make his settlement with them on such terms as he might choose to require.'—Sir J. E. Colebrook, quoted by Morison in *The Industrial Organization of an Indian Province*, p. 27.

<sup>2</sup> For the period from 1793 to 1859, see *Report of the Land Revenue Commission, Bengal*, vol. I, par. 49.

scene, he found the zamindars occupying such a strongly entrenched position that it would have been impossible to ignore them and set aside the development of a century and go to the root of the problem, as it were, trying to search out the original owners of the soil, as opposed to the zamindars, who started by being merely farmers of revenue. In accepting the *fait accompli* therefore Lord Cornwallis was probably impelled by the inexorable logic of facts. Further, it must be remembered that the all-round ruin in which the agriculture of Bengal was then involved, partly as the result of the kaleidoscopic changes in the post-Diwani revenue policy and the terrible famine of 1770, imperatively called for some drastic solution. There were thus very cogent reasons for some form of zamindari settlement. The entire absence of maps and reliable records of the areas and rent of individual holdings made a ryotwari settlement impossible. Lack of roads and means of communication and absence of trained staff capable of direct collection from the cultivators made some form of agency for the collection of revenue on contract or commission essential.<sup>1</sup> In these circumstances it was felt desirable to acknowledge as proprietors the zamindars, who happened to be the only well-established revenue machinery that was available, and in whose recognition seemed to lie the only chance of agricultural revival.

The third and the most important aspect of the Bengal settlement, namely, perpetuity of assessment, is a question not limited to Bengal alone but of much wider importance. It may therefore be reserved for treatment at a later stage (see §§31-2 below).

§17. The Permanent Settlement in Benares and Madras.—In Benares the British, anxious to follow the Bengal model and as yet not sufficiently familiar with the peculiar system of joint tenure of land, ignored the existence of landlord villages with a strong clan or tribal connexion and dealt with one of the chief co-sharers or some other prominent person on a Permanent Settlement basis (1795). In Madras no definite plan was followed until after the cession of Mysore and the Karnatak districts, when, although a settlement on ryotwari lines had already been initiated, an attempt was made to extend the permanent zamindari settlement to the whole Presidency. There was a considerable diversity of opinion as to the system to be adopted, but the Court of Directors, impressed by the punctuality with which the revenue was paid under Permanent Settlement in Bengal, instructed the Madras Government to enter into a permanent engagement with the zamindars. In north Madras and certain parts of south Madras, individual landlords existed, being mostly descendants of former ruling chiefs, and no difficulty was experienced in settling with them. In south Madras, however, only a few of these landlords—or polygars as they were called—were recognized, and the others were dispossessed as a penalty for having resisted the British power. In the major portion of the Presidency, however, there were ryotwari villages where no such

<sup>1</sup> See *Report of the Land Revenue Commission, Bengal*, vol. I, par. 45.

intermediaries existed, and in pursuance of the instructions of the Court of Directors, an attempt was made to create substitutes out of enterprising contractors. The villages were grouped together into artificial districts or parcels and sold by auction to the highest bidders, who then became the landlords of the whole estate. This experiment failed disastrously as it deserved to do. As Baden-Powell remarks, 'the real zamindar, in his natural growth of a century and a half, was bad enough; but what could be said for an auction-room landlord? Of course, the system failed miserably.'<sup>1</sup> The experiment was therefore abandoned in favour of the ryotwari system strongly advocated by Munro and developed, if not originated, by him. But before the ryotwari system was authoritatively adopted, between one-fifth and one-third of the Presidency had already come under the Permanent Settlement. The course of tenancy legislation for zamindari estates in Madras has already been described.

§18. Subsequent history of the Permanent Settlement: (a) *Under the Company*.—In the days of the Company's rule, Wellesley, Minto, Hastings, Bentinck and Munro had all strongly advocated the extension of the Permanent Settlement to other parts of India on the ground that, judging from the case of Bengal which had experienced a great revival under it, it seemed to hold out sure prospects of rapid agricultural development. The Directors of the East India Company, however, rejected the proposals (1820), in spite of solemn pledges given by proclamation and the expectations raised in all parts of the country.<sup>2</sup>

(b) *Under the Crown*.—After the abolition of the Company the question was revived by Lord Canning on the recommendation of Colonel Baird-Smith who was deputed in connexion with the severe famine of Orissa in 1860 to inquire into the causes of, and suggest remedies for, such calamities. Sir Charles Wood, while agreeing with the recommendation, failed to take any action. Sir Stafford Northcote, the next Secretary of State, proposed in 1867 the introduction of the Permanent Settlement subject to certain conditions, such as that, where 80 per cent of the cultivable land was brought under cultivation and there was no prospect of canal irrigation increasing the produce by more than 20 per cent, the state demand should be fixed in perpetuity. These conditions meant in effect that Permanent Settlement was to be deferred as long as the land continued to improve in value. Lord Kimberley, the Secretary of State, however, finally rejected the proposal altogether in 1883 mainly on the ground that the country was as yet undeveloped. Since then the attitude of the Government has been to regard the question of Permanent Settlement as closed, although from time to time echoes of the old

<sup>1</sup> *Land-Systems of British India*, vol. I, p. 292.

<sup>2</sup> As Ranade pointed out, 'Captain Wingate and his associates who were the great pioneers of the Bombay survey always regarded Permanent Settlement as the consummation of their land policy, to which the periodical settlements were only intended to serve as a preparation and midway introduction.'—See *Report of the Land Revenue Assessment Committee, Bombay* (1926), p. 72.

controversy of Permanent versus Temporary Settlement continue to be heard. The controversy in recent years caused by the proposal of the Bengal Land Revenue Commission to scrap the zamindari Permanent Settlement of Bengal and introduce a system of state purchase of zamindaris is reviewed in §32.

§19. Temporary Settlement with the remaining zamindars in Bengal and with the talukdars of Oudh.—Those parts in Bengal that are not permanently settled for one reason or another come under a temporary settlement, under which the percentage of assets taken is very high, as much in fact as 70 per cent, the holders of the settlement being usually middlemen, of a class for whom 30 per cent of the assets is regarded as ample remuneration. As to the mode of assessment, the system adopted in Bengal is identical with that in use in Agra which is described below.

The component villages under the talukdars are so important that virtually the Oudh settlement may be regarded as a modified form of the joint village settlement system which we now proceed to describe.

§20. Mahalwari settlements.—The temporary settlement as developed in the Agra province is the typical form adopted in provinces where mostly village communities with landlord rights are dealt with. An attempt was at first made to settle the villages on a permanent basis with a revenue farmer or some other person of note. The Home authorities, however, would not hear of a permanent settlement, and besides, in 1819, Holt Mackenzie, as secretary to a commission of inquiry, drew attention to the existence of village proprietary bodies and pointed out that they had to be reckoned with, that the single-landlord ideas derived from Bengal could not very well be applied, that a proper survey and a careful record of all rights whatever were indispensable, and that permanent settlement as a general measure could not be thought of.

The question of settlement in Orissa also came up at the same time as inquiries were set on foot in the North-Western Provinces (now called the United Provinces of Agra and Oudh), and to deal with both cases the famous Regulation 7 of 1882 was passed. This, together with later amendments, is the chief basis for all subsequent temporary settlements with landlords and village bodies.

In Agra, barring a few cases of individual zamindars and Agra talukdars, in the majority of cases there was no person above the village bodies. These were, therefore settled with directly in their collective capacity, though a co-sharer of standing and respectability was generally selected to undertake the primary liability in connexion with the payment of land revenue, and he signed the settlement on behalf of all the co-sharers, who were made jointly and severally responsible for the assessment. As the overlord rights of the Agra talukdars were very much inferior to those of the proprietary rights of the Oudh talukdars, their claims were disposed of by making the assessment payable by village bodies under them just so much higher as was necessary, and 10 per cent of the land revenue was paid as talukdari allowance to them directly from the Government



treasury. Returning to the settlement with the village communities in Agra, we must note that a section of a village or even an individual co-sharer (above a certain limit) can move for what is called 'a perfect partition' of separate and individual revenue liability, to take the place of joint liability. The work of settlement is partly judicial and partly fiscal, referring respectively to the ascertainment and record of rights in land on the one hand, and, on the other, the assessment of tenant rents. As to the settlement, we have the usual stages of demarcation, survey, record of holdings and rights, and lastly, the assessment itself.

§21. **Principles of assessment in mahalwari systems.**—The principles of assessment which we are about to describe must be understood to apply to all the mahalwari systems. After experimenting with several methods, such as the valuation of net produce, etc., the Government adopted the following plan of fixing the assessment. The actual rental value of the lands in the village is taken as the basis, direct or indirect, of the assessment. Revenue is technically said to consist of 'a fraction of the assets' of the estate as annually received. This fraction has varied from time to time. It was very high in the beginning under the East India Company, being over 80 per cent;<sup>1</sup> it was reduced to 66 per cent in 1833 by Lord William Bentinck; under the Saharanpur Rules of 1855 it was further reduced to about 50 per cent; and according to official claims the actual fraction realized in most cases is well below 50 per cent at the present time (see also §43).

The assets mainly consist of (i) the total rents actually received, which constitute by far the most important determining factor in Agra, (ii) the calculated rental value in the case of lands held by the proprietors themselves or allowed by them to be rent free, and (iii) certain miscellaneous profits, such as those from valuable waste lands, income from grazing, fruits and wild produce, etc. Of these three, the first two, making up the rental assets of the estate, are the principal factors.

This is the general principle of assessment in the different mahalwari settlements in Agra, Oudh, the Punjab, and the Central Provinces, though there are differences in detail in the various provinces. Actual rates of rent paid at the time of settlement are the basis of the Agra plan. In the Central Provinces, the necessity for securing more perfectly an equality of incidence of rents has led to the adoption of a peculiar method to be noted later on. In the Punjab, since much of the land is held by the proprietors or by tenants who pay in kind, a direct process of calculating cash rental cannot be followed. It is therefore necessary to ascertain a fair rate for all land of a given class on the basis of actual cash payments on the specimen holdings; and these representative values are applied to all the lands in the village.

<sup>1</sup> For example in Orissa, in 1822, it was authoritatively declared to be 83.3 per cent of the assets; in 1840, 65 per cent with a permissive reduction to 60 per cent, while at the re-settlement of 1901 it was brought down to 54 per cent (see *Land Revenue Policy of the Government of India*, p. 13).

§22. *Mahalwari settlement operations in the United Provinces.*—At the commencement of the settlement operations in the United Provinces, the Settlement Officer inspects the villages and groups them into assessment circles possessing general similarity of soil and physical character. The rent for each class of soil is then determined. The chief guide adopted for this purpose is the cash rental of the lands under ordinary crops held by permanent and responsible tenants who depend for their livelihood upon their holding. The Settlement Officer then determines the rent rate with reference to the ascertained rentals, after taking into account such factors as means of communication, increase of population, crop statistics and increase in the area cultivated.<sup>1</sup> Where there are no cash rents, the Settlement Officer takes as his basis either the rents paid in the village for similar lands or his own circle rates.

*The system as applied to Oudh.*—The Oudh settlement is practically the same as in Agra in all its features including assessment, except that the settlement is only occasionally with village communities, and in most cases, single talukdars are dealt with in one sum for an estate comprising a greater or less number of villages. The talukdar's revenue payment is based on the aggregate of the sums leviable as rent from each village in his estate. In some cases, as already seen, where the village communities under him have succeeded in preserving their rights, a 'sub-settlement' with these is made, and the payment to the talukdars is fixed so as to allow for the talukdar's profit, which is in no case less than 10 per cent of the land revenue.

§23. *Mahalwari settlement of the Punjab.*—Here we have the same system as regards survey, record of rights, etc., but there is a difference in detail so far as the method of assessment is concerned. There is no considerable body of tenants and of such as do exist many pay in kind. The Settlement Officer therefore calculates direct revenue rates per acre for each kind of soil in the village estate, basing them on what the rental assets would be if a cash rent were uniformly paid. For this purpose, there is a division of the area into circles in each of which broadly distinguishable classes of soil are adopted. Then certain standard rates are fixed after taking a number of fair specimen holdings representing each kind of soil and finding out what they actually pay in cash, and failing this, what the cash value of the grain rental is. These standard rates are utilized as a general basis for the assessment. In the Punjab, though theoretically revenue is collected not from individual cultivators but from joint holders of village estates jointly and severally responsible for it, in practice the share of revenue due from each is distributed and can be recovered separately. The cultivators therefore are generally in the same position as peasant proprietors in Bombay and Madras.<sup>2</sup> Under the Punjab Land Revenue Amendment Act (1929) the share of the state has been fixed at one-fourth

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 67.

<sup>2</sup> *ibid.*, par. 168.

of the net assets and the period of settlement has been extended to 40 years. (See also §43 below.)

§24. *Malguzari settlement of the Central Provinces.*—The system in the Central Provinces, again, is practically the same as the one in Agra so far as the basis of assessment is concerned. There is, however, a difference in respect of one important particular. In the Central Provinces, the revenues of the villages had been farmed out by the Marathas to individuals generally called *malguzars*. The British Government's anxiety, however, to deal with individual landlords led to the conferment of a proprietary status on these and their recognition as heads of villages, although the villages here were of the *ryotwari* type as in Bombay and Madras, consisting of aggregates of cultivators each claiming exclusive ownership of his holding. Extensive protection had therefore to be given to them, having regard to the fact that from the position of proprietors they had been degraded to that of tenants of the *malguzars*. The Settlement Officer therefore has not only to fix the revenue demand to be made from the *malguzars* but also to determine the rent payable, by practically all classes of tenants, to the *malguzars*.<sup>1</sup> It is obvious therefore that the method of calculating the rental value must be more accurate than where it merely serves as a general basis for the revenue demand on the part of the Government.

The fixation of rents in the Central Provinces is thus a highly complicated process and is achieved by an elaborate system of grouping and soil classification according to what are called 'soil units' which are intended to be measures of the productive capacity of the soil. 'The value is assumed to depend on the average net profits of cultivation, and to each class of soil in every position a factor is assigned expressing its value relatively to other soils, so that the soil unit varies, not only with the fertility of the soil, but also with the position of the land.'<sup>2</sup>

§25. *Ryotwari settlement: the ryotwari system of Madras.*—We have already noticed above<sup>3</sup> how the *ryotwari* system was adopted in Madras after the failure of attempts to introduce the Permanent Settlement. The principles of settlement are not embodied in any statute and are derived from extensive instructions. There is an accurate survey of each village, and a village map with a descriptive register of all holdings is prepared. The lands are classified according to the productive capacity of the soil, which is estimated in terms of quantity of some one of the ordinary grain crops. The grain value is converted into money value at a commutation price, based generally on an average of 20 non-famine years previous

<sup>1</sup> 'The fixation of rents which is the most important settlement operations is complicated by the general and increasing tendency on the part of *malguzars* to allow rents to continue at a low figure and to exact *nazaranas* on new leases of surrendered holdings or on the leasing of land for the first time' (*Taxation Enquiry Committee Report*, par. 69).

<sup>2</sup> *Taxation Enquiry Committee Report*; for further details, see Baden-Powell, *Land-Revenue and Tenure in British India*, pp. 186-8.

<sup>3</sup> §17.

to the settlement. From this, the expenses of cultivation being deducted, we get the net produce, of which about one-half is fixed as the maximum land revenue. There are abatements allowed for traders' profits, and for the distance the grain has to be carried to the market, and on account of vicissitudes of season and unprofitable areas. 'After this, soils of similar grain values, irrespective of their classification, are bracketed together in orders called *taram*, each with its own rate of assessment. These rates are further adjusted with reference to the position of the villages in which the lands are situated and the nature of the sources of irrigation. For this purpose, villages are formed into groups; in the case of dry lands, with reference to their proximity to roads and markets, and, in the case of wet lands, with reference to the nature and quality of the water supply. This accounts for different rates of assessment being imposed on lands of similar soils but situated in different groups or under different classes of irrigation. The assessment thus fixed represents the commuted value of the Government share of the surface cultivation. But if minerals are discovered in the land, a separate assessment will be levied therefor.'<sup>1</sup>

§26. The ryotwari system of Bombay.—Unlike Madras, Bombay possesses a Land Revenue Code<sup>2</sup> which regulates all matters connected with settlement. There are also special Acts to deal with the special classes of estates, such as those of the talukdars in Gujarat, the khots in the Konkan and the few joint villages of the Kaira and Broach districts.

In our general historical survey of land revenue, we have made reference to the revenue administration of the Marathas and its deterioration under the last of the Peshwas as a result of the introduction of revenue farming. When the British took over the Deccan from the Peshwas, they decided to put an end to the pernicious farming system and go back to the more equitable system of Nana Farnavis.

After various short-lived experiments and several proposals, including a general village settlement of the mahalwari type, the ryotwari system was eventually adopted. In 1825 Pringle was ordered to undertake a detailed survey of the land. He also tried to introduce an elaborate land classification with extreme accuracy, on the basis of net profits obtained. This required an infinite mass of details, and the whole experiment proved a failure on account of the high pitch of assessment in which it resulted. The failure of the experiment was emphasized by a series of famine years which supervened.

The Government therefore directed that the whole operation should be commenced *de novo*, and in 1896 entrusted the task to two officers; Mr Goldsmid and Lieutenant Wingate. The system introduced by them, as modified from time to time, is essentially the system now in force.<sup>3</sup> In

<sup>1</sup> Standing Orders of the Board of Revenue, Madras, quoted in *Taxation Enquiry Committee Report*, par. 64.

<sup>2</sup> The *Bombay Land Revenue Code* (1879) was amended in 1939 in important particulars. See §44 below.

<sup>3</sup> *Report of the Land Revenue Assessment Committee, Bombay* (1926), pp. 8-9.

1840, they submitted their report, in which they laid down the general principles for the basis of a survey settlement suited to the conditions of the Bombay Presidency. They recommended moderate assessment, settlement for 30 years, protection of improvements from taxation during the term of settlement, recognition of property in soil, perfect freedom of management with regard to sale, transfer and rents to be charged to sub-tenants, etc. Later on, Captain Davidson was appointed to collaborate with these officers, and in 1847 they issued a report which is well known as the Joint Report, in which are elaborated the principles underlying the present system.

According to the system adopted in this Report, the basis of net profits for the classification of land as under Pringle's system was abandoned. The depth and the texture of the soil were taken into consideration instead. The assessment itself was regulated by experimental rates based upon general considerations as to rainfall, agricultural prices, prosperity of the land and so on, the fundamental principle being that no more should be asked from the cultivator than what he could easily afford to pay. The *mirasi* and *upri* tenures of the olden days were merged into a uniform tenure known as the survey or occupancy tenure. The title of the cultivator to his holding was declared to be indestructible so long as he continued to pay the assessment. He was entitled to relinquish any fields or take up others so as to suit the extent of his liability to the means at his command. His position and status have been defined in the Bombay Land Revenue Code (1879) on this basis. The tenure so created is known as ryotwari, under which the proprietary cultivator holds his land direct from the Government. Full occupancy tenure is heritable, transferable and otherwise alienable without the permission of the Government. The occupancy is liable to forfeiture for failure to pay the assessment. A guarantee is given that no additional taxation will be levied on account of improvements made by the occupant.<sup>1</sup>

§27. Main features of settlement in Bombay.<sup>2</sup>—The ryotwari system of Bombay has the same general features as that of Madras, such as demarcation of boundaries, the determination of survey numbers which once fixed are not altered, and the classification of the soil, but the mode of assessment is different. The relative values of the soils are classified once for all according to their depth, texture, capacity for retention of moisture and other physical properties bearing on fertility, into several groups, and expressed in fractions of a rupee, 16 annas representing the best class of soil. The object of this classification, unlike that in Madras, is not to base the assessment on the net produce but merely to use it as a basis for the distribution of the total revenue demand fixed for the area.

Three main steps in the process of fixing the assessment, as directed by the Bombay Land Revenue Code (Amendment) Act of 1939, may be distinguished: (i) The first step is the dividing of the lands in a taluka

<sup>1</sup> See Keatinge, *op. cit.*, pp. 20-1.

<sup>2</sup> See Bombay Land Revenue Code (1879) and (Amendment) Act (1939), also §44 below.

or part of a taluka (to be settled) into groups. The groups are to be formed on a consideration of the following factors: physical configuration, climate and rainfall, markets, communications, standards of husbandry, population and supply of labour, agricultural resources, the variations in the area occupied and cultivated during the last 30 years, wages, prices, yield of the principal crops, ordinary expenses of cultivating such crops, rental values of lands used for agriculture and sales of lands for the purpose of agriculture. A 'group' means therefore all lands in a taluka, or part of a taluka, which are sufficiently homogeneous in respect of the above-mentioned factors. (ii) The second step is the fixing of the standard rates for each group. 'Standard rate' means, with reference to any particular class of land such as dry crop, rice or garden land, in a group, the normal assessment per acre on land in that class of 16 annas classification value. The standard rates are to be fixed on a consideration of all the factors mentioned in (i) above and are to be such that the aggregate assessment (or revenue demand) on the occupied lands in any group is not to exceed 35 per cent of the average of the rental values of such lands for a period of 5 years immediately preceding the year in which the settlement is directed. It may be pointed out here that rental value has been formally adopted as the basis for fixing the maximum assessment under the recent (1939) Bombay Land Revenue Code (Amendment) Act. The Bombay system was purely empirical for a long time, as is shown by the fact that the decision of the Settlement Officer as regards the revenue rates depended not upon the formal working out of results based on theory, but rather upon the subjective impressions of local knowledge and experience.<sup>1</sup> In recent years, however, the rental value, as ascertained by records of leases and sales and other similar factors, has been adopted as an important basic factor for fixing the assessment in practice.<sup>2</sup> Rental value, which has now been definitely and legally adopted as the basis for fixing the maximum assessment, is defined by the Bombay Land Revenue Code (Amendment) Act (1939) as 'the consideration (including premia, if any, or any sum of money paid or promised, or a share of crops, or service, or any other thing of value rendered periodically or on specified occasions) for which land is or could be leased for a period of one year for its most advantageous use'. The Settlement Officer is directed to ascertain, in the manner prescribed by rules issued under the Act, the rental value of lands for the purposes of settlement. (iii) The last step is the determination of the revenue liability from aggregate to detail, fixing the land revenue assessment of individual survey numbers and sub-divisions. This, as we have already mentioned, is carried out with the help of the annewari classification of the soil which serves the purpose of a sliding scale. Thus, if the maximum rate be Rs. 3 per

<sup>1</sup> *The Bombay Survey and Settlement Manual*, quoted in the *Taxation Enquiry Committee Report*, par. 66.

<sup>2</sup> See Bombay Government's Resolution on the *Report of the Land Revenue Assessment Committee, Bombay* (1926).

acre for the 16-anna field, it would be Re. 1-8 per acre on a field classified as 8 annas.<sup>1</sup>

It is noteworthy that under the amended Bombay Land Revenue Code (1939), the Provincial Government is empowered to vary the assessment in any year in accordance with changes in prices where a particular settlement is declared to have been made with reference to specified prices of agricultural produce. A much-needed element of elasticity in the administration of the land revenue system has thus been introduced. The lack of such a provision was a source of great hardship to the agriculturists during periods of rapidly falling prices such as marked the depression of 1929-33. On the other hand, it is but fair that the Government should be entitled to higher assessment in money value when agricultural prices show a substantial rise. Such an arrangement deserves to be introduced in other provinces as well.

There are certain restrictions as regards the increase in assessment resulting from a revision, according to which the increase is limited to 25 per cent on the total for a whole taluka and a group, and 50 per cent on that of a village, and survey number or subdivision. Private improvements are protected by the provision that increases in rental-value due to improvements effected in land at the expense of holders is not to be taken into account in fixing the revised assessment.

§28. The Assam system.—In Assam, the only proprietors were the Permanent Settlement landholders of the older Bengal districts and a few other permanent cultivators enjoying a title, which is called landholder's title, based on occupation of land for ten years before the Regulation of 1886, and after the Regulation, on lease or grant of settlement for ten years. A great deal of the land is also held on an annually renewed permit or *patia*, or at least on a lease which is for less than ten years. In Assam, waste land rules are especially important, as hardly 25 per cent of the area of any district is under cultivation.

Tea gardens are held on leasehold tenure for long terms at low rates of assessment. After the expiry of the term of lease the land is liable to be assessed under the laws in force, provided that the rate cannot be higher than that payable on the most highly assessed lands in the district cultivated with any ordinary agricultural crop.

§29. State ownership versus individual ownership.—Before entering upon a critical examination of the present land revenue system and the various controversial questions arising in connexion with it, we shall dispose of the question whether the state is the universal landlord or whether there is indisputable private property in land in India. At the very outset, we may say that no clear and unambiguous answer can be given to the question that is thus propounded, and that, in any case, for all practical pur-

<sup>1</sup> The system of settlement in Berar is similar to that prevalent in Bombay. In Sind, where assessment rates depend on irrigation, and not on rainfall which is negligible, the period of settlement is shorter than in the Bombay province.

poses, it does not very much matter whether we call the land revenue a rent or a tax.

We shall proceed at first to discuss the question on the usual lines. The specific issues that arise have been stated as follows by the Taxation Enquiry Committee. (i) Did the state claim exclusive proprietary rights over the land (a) under Hindu rule, (b) under Muslim rule? (ii) Did the British Government succeed to any such rights? (iii) Is the state now the proprietor of land held (a) on zamindari or (b) on ryotwari? (iv) If not, are the zamindars and ryots respectively the possessors of the proprietary right subject to the payment of land revenue? (v) Should the land revenue be described as a tax or rent?

As regards the first two points, the opinion is generally held that the state never claimed exclusive proprietary right over the land before the British era and that therefore the British could not be said to have *succeeded* to any such claim. In this connexion, the views of Mountstuart Elphinstone, H. H. Wilson, Baden-Powell, etc., and also an elaborate judgement of the Bombay High Court, in a case from Kanara disposed of in 1875, are quoted. The judgement in question endorses the view of Wilson that the proprietary right of the sovereign derives no warrant from the ancient laws or institutions of the Hindus<sup>1</sup> and is not recognized by modern Hindu lawyers as exclusive or incompatible with individual ownership. Similarly, with regard to Muslim law, Colonel Galloway summarized his conclusions as follows: 'The soil was the property of the cultivators as much as it could be. Law gave no power, policy gave no motive to remove him, to disturb him, so long as he paid his taxes. When he did not, his lands could be attached; and so can those of the first peer holding by the firmest tenure of the English law. The right of the Indian husbandman is the right of possession and of transfer; and the rate of his land tax was fixed; often, indeed, the amount. In what respect, then, is his right of property inferior to that of the English landholder?'<sup>2</sup>

What holds good of northern India and the practice of Muslim rulers, applies with greater force to the case of southern India, where the existence of private property in land was admitted even more unmistakably, especially in those parts of the country which never came under the Muslim rule.

As regards the first two points therefore the Taxation Enquiry Committee were unanimously of opinion that under both Hindu and Muslim rule, the state never claimed the absolute or exclusive ownership of the land and definitely recognized the existence of private property in it.<sup>3</sup> This view received support from the Bengal Land Revenue Commission (1940), who pointed out that the state (at the time of the Permanent

<sup>1</sup> 'Land is his who first cleared away the jungle, as the deer is his who first brought it down' (Laws of Manu quoted by Baden-Powell, *Land-Revenue and Tenure in British India*, p. 123).

<sup>2</sup> *Taxation Enquiry Committee Report*, par. 80.

<sup>3</sup> See also J. Briggs, *Land Tax in India*, p. 127.



Settlement), although still regarded theoretically in parts of India as the supreme owner of the land, never in practice claimed any actual proprietary rights in the soil. Its claim has been limited to a share of the produce.<sup>1</sup>

During the period that intervened between the death of Aurangzeb and the firm establishment of British rule in this country, provincial governors and adventurers seem to have put forward all kinds of extravagant claims. And the tendency to rack-rent, which was the characteristic of this chaotic period, made people less and less inclined to insist on the recognition of their private rights in land, their anxiety being rather to secure for themselves the freedom of relinquishing the land when they liked and thus escaping the revenue burden. The state thus put forward claims of exclusive ownership which the people did not care to contest. Therefore Baden-Powell is probably right when he says: 'It is hardly possible that Mr James Grant, and Colonel Munro and many others could have been mistaken about the fact that in their time (that is, the time of the Permanent Settlement of Bengal) all Governments did claim to be landowners.'<sup>2</sup>

The claims put forward by the British Government from time to time were neither consistent nor uniform, although the general trend of their policy can be shown to have been towards admitting private ownership in land. Referring to the cultivated land in villages and estates (not the waste land nor the particular lands of which the Government are admittedly the immediate owners), Baden-Powell observes that the British Government everywhere conferred or recognized a private right in land, and in large areas of the country (Bengal, Oudh, the whole of northern India, for example) they expressly declared the proprietary right of the landlords and the village owners.<sup>3</sup>

It is generally agreed that, so far as the zamindari or landlord estates in Bengal and elsewhere are concerned, private property in land is beyond dispute. On the other hand, it is equally beyond dispute that the Government have full proprietary rights on waste lands and over the *khas mahal* estates, such as those in Bengal and Bihar which are under

<sup>1</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 41.

<sup>2</sup> The property right of the Crown in land is said to have been definitely asserted by Tipu Sultan. On the other hand, Mountstuart Elphinstone reporting on the *mirasi* tenure under the Marathas wrote as follows: 'A large portion of the ryots are the proprietors of their estates, subject to the payment of a fixed land tax to Government; their property is hereditary and saleable, and they are never dispossessed while they pay their tax, and even then they have for a long period (at least thirty years) the right of reclaiming their estates on paying the dues of Government' (*Report on the Territories Conquered from the Peshwas*).

<sup>3</sup> This was, however, sometimes officially disputed. It was urged that even in Bengal, the zamindars had not been granted complete proprietary rights; that the Permanent Settlement was granted to them as a grace which was considered good policy; that it was not founded on the principles or practice of previous Governments; and that, apart from the unalterable assessment, the Government still remained proprietors, and the zamindar an agent for collecting revenue, or a tenant under the Government.

the direct management of the Government. It is with reference to ryotwari lands that opinion is somewhat sharply divided. On the one hand, it is held that the position of the ryot, or 'occupant' as he is called in Bombay, is not essentially different from that of the zamindar, and that he holds land as full proprietor subject to the proviso that he pays the revenue assessment. The fact that the Government can take the land into their possession if the holder fails to pay the assessment does not prove that he has any the less right of property in it. For this is by no means an uncommon proviso and it applies in the case of all private property, which the Government can attach in the event of default. The utmost that we can say is that the Government regard the land as hypothecated to themselves as security (in the last resort) for the land revenue assessed on it.<sup>1</sup> One of the features which distinguishes ryotwari from zamindari lands, is that the former can be relinquished at the option of the holder. This, however, appears to be too slender a basis for the theory that the state is the real landlord in ryotwari areas. This feature, like the term 'occupant', owes its origin to times when the cultivator, harassed by exactions and oppressions, was reluctant to be tied down to his land and made unconditionally responsible for the payment of the revenue demand. The option of relinquishing the land was a concession to the natural fears of the cultivator and was not due to any intention on the part of the British Government to withhold the right of ownership from him, which, in fact, they were anxious to confer. Another point urged in favour of the theory of state ownership is that, in some provinces, agricultural land cannot be put to non-agricultural uses without the permission of the Government and is further liable to revised assessment when such use is allowed. But this may be regarded as one of those restrictions on the use of private property, for example restrictions imposed in the interests of public health, which are common in all civilized countries. We may therefore endorse the view expressed by the Taxation Enquiry Committee that both the zamindars and the ryots are possessors of proprietary right subject to the payment of land revenue, though in the latter case, it is not possible to arrive at an exact and general definition of the position of the landholder.<sup>2</sup> We may also refer to another view, namely that the Indian conception of land tenure is a compromise between the English theory of absolute property in land on the one hand, and the extreme of state ownership on the other. It is neither wholly the one nor the other, but something betwixt and between. The position may be described as restricted Government ownership or restricted private ownership. The landlord's or ryot's title is acknowledged, but subject to the limitation of the state's joint interest or concurrent right in land, and in northern India subject also to the claim of the tenants to semi-proprietary rights such as that of fixity of tenure.<sup>3</sup>

<sup>1</sup> See Baden-Powell, *Land-Revenue and Tenure in British India*, p. 49.

<sup>2</sup> *Taxation Enquiry Committee Report*, par. 83.

<sup>3</sup> Morison, *op. cit.*, p. 18.

§30. Land revenue : a tax or rent?—If private ownership of land is granted it follows logically that the land revenue is a tax and not a rent. All the arguments advanced for or against state landlordism have by implication the same amount of cogency (or the lack of it) in deciding whether land revenue is a tax or a rent. We may, however, mention some additional points specifically brought forward in connexion with the tax or rent question.<sup>1</sup> It is argued, for instance, that land revenue differs from a tax and is akin to rent in that it cannot be altered according to the exigencies of the state during the long period for which it is fixed, and in the concessions granted to land revenue payers, such as rent-free house sites, the use of common grazing lands, etc. As against this, it may be urged that there is nothing to prevent the state from revising the rent annually except considerations of policy, expediency and economy. Further, it must be remembered that rentals on private lands are not necessarily fixed for a long term of years. In fact, it is notorious that many of the leases are renewable every year. As regards rent-free house sites, common grazing lands, etc., all these concessions do not appear to be of a decisive character in the present discussion. The Government, in their capacity as an enlightened state, and as concerned with the welfare of the cultivators, may well grant facilities of this kind without thereby establishing the right of landlordship. A further somewhat trivial argument in support of the view that land revenue is a tax is that the process of its assessment and collection is similar to that in the case of a tax.

Lastly, we may refer to another argument which has been advanced in favour of private proprietorship of land. The Income-Tax Act of 1886 exempted agricultural incomes and this, it is said, amounts to an implicit admission that landed incomes already pay a tax. If land revenue had been a rent, that is a payment to the Government as landlords in recognition of their ownership, a further tax would have been justified.<sup>2</sup>

The above discussion shows that the whole question is highly complicated and does not admit of a categorical answer one way or the other, although the case for private ownership is very much stronger than that for state landlordism. We agree with Baden-Powell's verdict that the controversy is a 'profitless war of words'. It is profitless because it is endless. There are arguments for and against each of the rival theories, and some

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 44-5.

<sup>2</sup> We must state, however, that this argument is not conclusive in favour of private ownership, because it is quite possible to argue that agricultural incomes are exempted from taxation, as the number of cultivators in the enjoyment of incomes above the free minimum income-tax limit, after paying the Government land revenue, is comparatively small, and that it is not worth while trying to tax them; or secondly, it is open to the Government to explain that the failure to assess landed incomes to income-tax is a mere omission which they may offer to remedy at any moment (this view is confirmed by the fact that the Government of Bihar has imposed a tax on agricultural incomes since 1938 and other governments are contemplating a similar step); and lastly, it may be pointed out that in England, in addition to the land tax, income-tax on agricultural profits is paid, but this does not render private property in land open to dispute there.

people may be impressed by one set of arguments and others by the opposite set, and this not necessarily owing to any conscious bias on either side. It is also profitless because no important question of actual practical policy seems to depend on how it is settled, and it is the practical aspects of the matter that are important rather than the technical juridical position. If land revenue is not so limited as to leave the proprietor something beyond the barest necessities of life, the full and unconditional admission of the ryot's proprietary right in his holding is worth absolutely nothing to him, just as, if all his present rights in land, of sale, mortgage, etc. are left intact and the Government assessment is moderate, it does not matter to him if the Government formally consider themselves as the universal landlords. Let us illustrate by a few instances the position that the whole discussion is of little practical importance. For example, the question of legislative control on the executive in the matter of land revenue has practically nothing to do with the question whether the Government are the proprietors of the land. Even if the state were the landlord, the state does not mean merely the executive. How far one part of the Government, namely, the legislature, should interfere with the discretion of another part, namely, the executive, is entirely a matter of administrative convenience and efficiency and of political ideas. It may well be argued that, since the land revenue system touches the well-being of millions of people in this country, a more stringent control over it by the legislature is desirable. It is true that in a fully responsible Government all taxes are necessarily voted by the legislature, but this does not mean that no other charges than taxes proper can be voted similarly. The utmost we may grant is that the case for legislative control is somewhat reinforced by, without positively requiring, the hypothesis that land revenue is a tax and not a rent.

Again, it is sometimes said that if we admit state landlordism we should have to admit also the right of the state to exact the full economic rent.<sup>1</sup> But this is a consequence from which we cannot escape, even if we prove that the state is not the landlord, because it is a universally accepted maxim of taxation that theoretically the whole of the economic rent may be absorbed in taxation without in any way hurting the taxpayer, provided we can be quite certain that we have isolated the economic rent (the real unearned increment) and not included in it other elements,

<sup>1</sup>One of the lessons which V. G. Kale would draw from the *Bardoli Report* is the practical importance of the discussion of the question whether the state or the individual is the landlord (see 'A Lesson from Bardoli', *Indian Journal of Economics*, July 1929). The Bardoli muddle was the result of a perfunctory attempt to apply in practice the rental value and revenue index theory of F. G. H. Anderson, the then Settlement Commissioner of Bombay, and Anderson was a whole-hearted believer in the Ricardian theory of rent. This much may be granted. But the Ricardian theory of rent in no way rests on any assumption regarding the state ownership of land. Anderson himself declared that 'land revenue is due to the state quite independently as to who "owns" the land' (*Facts and Fallacies of the Bombay Land Revenue System*, p. 142).

namely, wages, profits, and interest. The practical results will not be very dissimilar whether we profess to apply canons of rent or canons of taxation to the assessment of land revenue. This is seen by the fact that the Government, without definitely committing themselves to the view that land revenue is a tax and not a rent, saw no harm in instructing the Taxation Enquiry Committee to study the incidence of land revenue and to point out any defect in the system *from the standpoint of the canons of taxation*, and even to suggest a complete change of system if necessary. As regards arbitrary enhancements of assessment or rack-renting, no civilized state would think of justifying this species of oppression on the ground that it is the landlord and is therefore legally entitled to charge what it likes for the use of land. The state cannot afford to stand merely on legal rights; it must be prepared to be judged by moral standards, and the Government cannot possibly dispose of complaints about excessive assessment merely by taking shelter behind the theory of state landlordism. They have generally tried to argue, whether successfully or not, that the land revenue is not really as burdensome as alleged by its critics. Even supposing that the state is the landlord, we must expect it to behave at least like an enlightened landlord and, therefore, in its own ultimate interest, to regulate the land revenue in such a manner as not to trench upon the legitimate profits of the cultivator and reduce his incentive to work or lower his efficiency. A benevolent and enlightened landlord would not, for instance, exact a rent from uneconomic holdings. He would rather consolidate the holdings and would charge rent only when they are of such a size as to pay the costs and leave a surplus. The case for exemption of uneconomic holdings can therefore be argued quite as well on the assumption of Government landlordship as otherwise. The policy of a moderate levy receives further support from the consideration that the state has no interests separate from those of the people. The state serves itself best by serving the people because the state is the people.

In connexion with this controversy, it is worth while pointing out that there is an agreement on certain fundamental matters between people taking different sides in it. For example, although the Government have sometimes flirted with the theory of state landlordism, their actual policy has been to foster the development of a strong sense of individual ownership, and they have generally been in cordial agreement with the view that it would be dangerous to do anything to disturb it. The average unsophisticated cultivator in India has no doubt whatever in his own mind that, so long as he is free to sell, lease, mortgage and inherit landed property—rights which the most extreme advocates of state landlordism in India are not prepared to disturb—Government landlordship, if he has ever heard of such a thing, is merely an empty name, and he will not tolerate any serious interference with his present rights by the Government.<sup>1</sup> It is also generally agreed that in considering the incidence of

<sup>1</sup> The ryot in Mewar is supposed to have ever in his mouth the common though expressive adage "*Bhogra dhanny raj ho, bhoomra dhanny maj ho*" "the tax be-

taxation, land revenue should be regarded as a tax, and the Taxation Enquiry Committee endorsed this view although on the curious ground that land revenue 'forms a deduction from the national dividend'.<sup>1</sup>

Further, all important questions of land revenue policy, such as the pitch of assessment, period of settlement, etc., can be and are being discussed without any sustained reference to the controversy as to whether land revenue is a tax or rent. In these circumstances, if the Government were to declare in unmistakable terms that they fully recognized private property in land and abandoned all pretensions to universal landlordism, this would set at rest much futile discussion and serve to reassure the people. Moreover such an admission need not in any way be inconvenient from the fiscal or any other point of view.

§31. *Permanent versus temporary settlement.*—The great distress from which large numbers of the people suffered in India, owing to the serious and widespread famines which visited the country towards the close of the last century, attracted attention to the land revenue policy of the Government, which was criticized generally and province by province by the late R. C. Dutt, who, along with certain retired European members of the Indian Civil Service, presented a memorial on the subject to the Secretary of State. A little previously to this (1900) R. C. Dutt had also addressed his 'open letters' to Lord Curzon, whose Government published an important Resolution in 1902 replying to the criticisms and outlining their general policy after considering the reports submitted by the Provincial Governments.

One of the points urged by Dutt was that if the Permanent Settlement had been introduced 40 years previously, that is, when its extension was proposed by Lord Canning in 1860, India would have been spared the 'dreadful and desolating famines' of the close of the nineteenth century. He attributed to the Permanent Settlement the prosperity of the Bengal ryots, their resourcefulness and greater resisting capacity in years of bad harvest, the promotion of agricultural enterprise, investment of private capital and its accumulation and devotion to useful industries, public institutions and works. Although the Permanent Settlement does not now count as many adherents as it once did either among officials or non-officials, it is not altogether a dead issue yet. For example, a number of witnesses who gave evidence before the Bombay Land Revenue Assessment Committee (1924-5) declared themselves in favour of permanent settlement. In Bengal the controversy obtained a fresh lease of life following the appointment of the Land Revenue Commission and the publication of its findings (see §32 below). It would not therefore be amiss if we were to set out briefly the arguments for and against it with particular reference to its operation in Bengal.

longs to the king, the land belongs to me".—Briggs, *op. cit.* p. 90. This attitude is not peculiar to the cultivator in Mewar but common to the ryot in all parts of India.

<sup>1</sup> *Taxation Enquiry Committee Report*, par. 84.

Those who uphold it contend that it has been brilliantly successful in Bengal.<sup>1</sup> (i) Financially, they say, it has ensured to the state a fixed and stable revenue without the necessity of incurring heavy expenses in connexion with periodical re-assessment and collection. (ii) Socially, it has enabled the zamindars to act as the natural leaders of the ryots and to show their public spirit in a practical manner by helping the spread of education and sound ideas on sanitation, and in other ways.<sup>2</sup> (iii) Economically, it has secured agricultural enterprise and prosperity and a resourceful peasantry, which has shown a remarkable power of resistance in times of scarcity. (iv) Lastly, the Permanent Settlement has avoided the evils associated with temporary settlements, such as the harassment of the cultivator at the time of revision, the expensive machinery required for re-settlement, the tendency of land to deteriorate towards the end of the term of settlement, due to deliberate neglect on the part of the cultivator so as to escape enhancement of assessment, impediments to industry and improvements, and the concentration of arbitrary power in the hands of revenue officials not liable as yet to legislative and judicial control.

(i) The most obvious as well as the most important argument against the Permanent Settlement is that it has frozen the land revenue at a figure which is far below the fair share which the Government ought to receive from the produce of the land, and is substantially less than the share taken in the provinces where there is no Permanent Settlement and where the land is less productive than it is in Bengal. It has deprived the Government of any share in the increment in the value of land due to the increase in population and the extension of cultivation; and it has perpetuated an assessment which has no relation to the productive quality of the land, which varies widely from district to district, and which becomes more and more uneven as time goes on. The advantage of a fixed and stable revenue is secured at too great a cost. The Bengal Land Revenue Commission (1938-40) estimated the annual loss in this generation at anything between Rs. 2 crores and Rs. 8 crores, not to speak of the decline in the purchasing power of the rupee since 1793.<sup>3</sup> The inelasticity of land revenue, which is an important resource of Government in an agricultural country, is a tremendous handicap to the Bengal Government and inhibits state activity in many directions in which it is required. The expectation

<sup>1</sup> For a recent presentation of the arguments in favour of the Permanent Settlement see the Note of Dissent by Sir Bijay Chand Mahtab, Maharajadhiraja Bahadur of Burdwan and Mr B. K. Roy Choudhary, *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 29-34.

<sup>2</sup> The Permanent Settlement, it has been argued, by increasing the zamindar's profits encouraged subinfeudation and brought into existence a body of tenure-holders vastly outnumbering the original zamindars. It thus promoted the prosperity of, if it did not create, that class in Bengal which has had leisure for culture and politics, has provided educated men for the professions and government services and is responsible for all political progress. *Report of the Land Revenue Commission, Bengal*, vol. I, par. 77.

<sup>3</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 73 and 80.

that, as a result of the Permanent Settlement, other sources of state income would grow, has not been realized to anything like the extent hoped for. The community has thus been deprived of its legitimate right to share in the increasing prosperity of the zamindars, which is due not so much to the direct efforts of the landlords themselves as to social factors beyond their control, such as growth of population, improved communications, rises in prices, etc.<sup>1</sup> Moreover, the Permanent Settlement has involved for the Government the loss of revenue from minerals and from fisheries in certain navigable rivers, as these natural resources were not taken into account at the time of the Permanent Settlement, and in consequence they have been exploited for private gain without any co-ordinated plan. It may be added that the discrimination in respect of taxation in favour of land has had the effect of creating a bias in favour of investment in land rather than in industrial enterprises and has contributed to the over-capitalization of rent-receiving as opposed to productive purposes in either agriculture or industry.<sup>2</sup> (ii) The political argument that the Permanent Settlement has secured the loyalty of zamindars has clearly, lost whatever value it once possessed in the past. Besides, the present provincial Governments are anxious to secure the loyalty of the masses rather than that of the big zamindars. (iii) As regards the hope that was entertained about a powerful class of wealthy and benevolent landlords acting as the natural leaders of the ryots and exerting themselves for their uplift, it is generally recognized that this has not been realized. On the contrary, 'while there are many worthy, liberal-minded and enlightened landlords in Bengal—as there are also in other parts of India—the evils of absenteeism, of management of estates by unsympathetic agents, or unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between zamindar and the cultivator in many and various degrees, are at least as marked and as much on the increase there as elsewhere'. The development of subinfeudation, owing to the margin between the fixed land revenue and the economic rent of land, and the growth of a long chain of middlemen, have severed the connexion between the zamindars and ryots and have defeated the intention of Lord Cornwallis to establish a landlord and tenant system in Bengal on the English model. 'The land is nobody's concern . . . The responsibility for agricultural welfare cannot be fixed at any particular link in the chain between the zamindar and the actual cultivator.'<sup>3</sup> The evil has been aggravated by the further process of the fragmentation of proprietary interests in land. (iv) As to the prosperity of Bengal being due to the Permanent Settlement, it is argued that it is due to quite other facts, such as the protection which the tenants enjoy from the operation of special tenancy laws, the comparative

<sup>1</sup> For a discussion of some consequences of the Permanent Settlement in Bengal, see *Report of the Indian Statutory Commission*, pars. 381-2, M. A. Huque, *The Man behind the Plough*, pp. 224-67, and the *Report of the Land Revenue Commission, Bengal*, vol. I, pars. 72-93.

<sup>2</sup> *Report of the Land Revenue Commission, Bengal*, vol. I, par. 80.      <sup>3</sup> *ibid.*, par. 78.



the question of its extension to the areas temporarily settled is unthinkable. As Lord Irwin once said, since Cornwallis's time India's place in commerce and the markets of the world and the growing intricacy of her financial and social problems have brought many new factors into the picture necessitating elasticity of public revenue and expenditure. The Government are being constantly asked to undertake new tasks and improve old ones. But this requires greater and greater command of funds, and it would therefore be impossible for the state to forgo its legitimate share of the increment in the value of land. There is no doubt that the time has now come to revise the system of Permanent Settlement in Bengal and elsewhere, in order to secure fairness in the distribution of the tax burden and elasticity of revenue.<sup>1</sup> If it is objected that this reform would involve the violation of a solemn pledge and contract, it may be replied that, after the lapse of more than a century and a half, the original contract has lost its meaning and ceased to be equitable, and that vested interests must not be allowed to prevail indefinitely over the common good. 'The promise given was a necessity of the past; the word broken is a necessity of the present.' This is one of Machiavelli's maxims expressed with characteristic frankness, but nobody will deny that it has a core of sound practical wisdom, especially when we reflect that 'the past' and 'the present' we are now thinking of are separated by a long and eventful interval of over a century and a half.

The Indian constitution of 1935 did not veto the annulling of the Permanent Settlement, should this have been found necessary on grounds of public policy. It merely prescribed certain constitutional precautions, viz. reservation for the signification of His Majesty's pleasure as directed in the Instruments of Instructions to the Governors and the Governor-General. The new constitution that is in process of formation (1949) is likely to make the annulment even easier.

§32. Land Revenue Commission, Bengal (1938-40).—The Government of Bengal appointed a Commission in November, 1938, presided over by Sir Francis Floud, to examine the existing land revenue system of Bengal with special reference to the Permanent Settlement and to appraise the advantages and disadvantages of the existing system. The Commission submitted their report in March 1940.

The majority of the Commission reached the conclusion that whatever may have been the justification for the Permanent Settlement in 1793, it is no longer suitable to the conditions of the present time; and that the zamindari system has developed so many defects that it has ceased to serve any national interests (see §31 above). In the view of the majority the present system should be replaced by one which will bring the actual cultivators into the position of tenants holding directly under the Government by the state acquiring the interests of all classes of rent-receivers.<sup>2</sup> The Commission argued that nothing substantial is to be gained

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 87-8.

<sup>2</sup> *Report*, vol. I, par. 96.

by substituting a system of temporary settlements for the Permanent Settlement (par. 132). The aim should be to replace the Permanent Settlement and the zamindari system by a ryotwari system under which the Government would be brought into direct relations with the actual cultivators, and would as the sole landlord be responsible for the welfare of the cultivators by initiating various schemes of agricultural improvement (pars. 94-5).

The majority of the Commission recommended that legislation should be introduced to acquire the interests of all rent-receivers down to the actual cultivator of the soil. Compensation should be paid at a flat rate of ten times the net profit of the proprietors and tenure-holders, in cash if possible, otherwise in bonds redeemable after 60 years. They also favoured the acquisition of royalties from mines and fishery rights. The imposition of an agricultural income-tax was recommended as a transitional measure until the scheme of state purchase was effected, in preference to an agricultural or other cess. The tax should be applied solely for the improvement of agriculture.<sup>1</sup>

The Report did not command the unanimous support of the Commission's members, six of whom signed four minutes of dissent. In the view of the dissenting minority, state acquisition would not only be a hazardous experiment financially, but would be undesirable for social and economic reasons. They held that the economic difficulties of the cultivators in Bengal are unconnected with the land revenue system. The chief causes of those difficulties are the increasing pressure of population, the Hindu and Muslim laws of inheritance which have resulted in the subdivision and fragmentation of holdings, the absence of any occupation for the cultivators during a great part of the year, and the fall in agricultural prices. Whatever may be the defects of the existing system, it was contended by the minority that it has resulted in a state of affairs where the occupancy ryot in Bengal pays a lower rate of rent than in any other province, and has been given greater protection by tenancy legislation than the tenants in any other province. In these circumstances, the cultivators will not benefit by state acquisition, and such a scheme of state acquisition would lead to an undesirable social upheaval in Bengal by striking at the very roots of the middle class with its vested interests in land. The scale of compensation is meagre and its basis unsatisfactory. There is also danger of rent reduction under pressure from the rural electorate if the Government become the sole landlord (pars. 89-94).

The majority of the Commission did not dispute the part played by the factors referred to by the minority in undermining the prosperity of Bengal agriculture. But they insisted that the zamindari system has been an important contributory factor and could be more easily dealt with

<sup>1</sup> On 27 April 1945, the Bengal Legislative Assembly passed the Bengal Agricultural Income-Tax Bill which provides for a tax on agricultural incomes exceeding Rs. 3,500 annually.

than those mentioned by the minority, which are rooted in ancient custom or governed by world trends beyond India's control. The majority recognized that their proposal of acquisition by the state involves a fundamental change in the rural economy of Bengal, vitally affecting the whole social and economic structure of the province, that it could only be carried out gradually over a term of years and that it would be a most formidable administrative undertaking, which would tax to the full all the resources of the Government. They also considered the possible social upheaval. Nevertheless they held the view that, in the interest of the province as a whole, the present land tenure system cannot remain unaltered, and its defects can only be remedied if the state comes into direct relation with the actual cultivators (par. 138).<sup>1</sup>

§33. *Term of settlement.*—There is considerable diversity of opinion as to whether the term of settlement should be as short or as long as possible. There are some who advocate as brief a period as 10 years, while others would like to see it extended to no less than 99 years. The argument in favour of a short period is that it enables the state and the community to benefit by absorbing their proper share of any unearned increment which general progress may have brought into existence—an argument particularly applicable to those tracts where the economic resources are fast developing—and that, on the other hand, in the event of declining rents and prices, it makes possible a lowering of the assessment and speedy relief to agriculturists. It has also been urged that short-term settlements excite less discontent by making the people familiar with more frequent but smaller increases than the large enhancements that are likely to come at the close of too long an interval. On the other side it is pointed out that long terms of settlement are less disturbing to the revenue payer and have the advantage of increasing the resources of the people and enabling them to make improvements without fear of having to forgo the benefit from them on account of higher assessment. Assuming a well-conceived and scientific system of assessment, the period of settlement would depend on a balance of these opposing considerations, and it is impossible to say off-hand with precision that a particular period and no other is the ideal. The general feeling in the country is in favour of a long term, and an increase in the period of revision is popularly regarded as a step in advance. It is noteworthy that the period of settlement, at least in the case of one province, the Punjab, was extended to 40 years under the Punjab Land Revenue Amendment Act

<sup>1</sup>The Bengal Government decided, in March, 1945, to implement the recommendations of the Floud Commission. A beginning was made with the District of Faridpur where settlement operations were in progress. An extension of the scheme to all the districts was expected to increase the revenue of the province by about Rs. 12 crores per annum.

The Congress is committed to a policy of eliminating all intermediaries between the cultivator and the state and the Working Committee (October, 1946) passed a resolution calling upon all Congress Governments in the provinces to submit proposals for the abolition of the zamindaris.

(1929). The Bombay Land Revenue Assessment Committee, pleading for the period of 30 years, observed: 'Thirty years is a generation in the life of the agriculturist. If he knows at the beginning of this period that his assessment is subject to an enhancement at the hands of Government, he has ample time to assimilate his expenditure and his mode of living generally to the ratio of assessment he is called upon to pay, while if in the course of the settlement period the value of his land increases, prices show a steady rise, and facilities of markets and communications improve, his economic condition is such that he can prepare himself for a reasonable enhancement of rent at the succeeding revision settlement.' Mr Anderson objected to such a long period as 30 years because, *inter alia*, combined with the 33 per cent<sup>1</sup> enhancement rule, it prevents steps being taken to remedy one of the grave defects of the Bombay system, namely, it does not take a uniform share of the profits of cultivation everywhere alike. Profits or rents increase faster than the land revenue can increase at the maximum rate of 33 per cent every 30 years.<sup>2</sup>

§34. Principles of assessment.—As we have already seen in our survey of the different settlements in India, there is no single system of clearly recognized and consistently applied maxims of assessment of land. The basic principles differ from province to province, and they are further modified by the introduction of a number of miscellaneous factors, and a large amount of discretion is allowed to the Settlement Officer. While, in the United Provinces, the Punjab and the Central Provinces, the theoretical basis of assessment is the economic rent, and in Madras the net produce, Bombay until lately did not even profess to have any definite principles of assessment and followed a frankly empirical system depending upon general economic considerations as they impressed the Settlement Officer.

§35. Rental value as a basis of assessment.—The practice followed in recent years in Bombay,<sup>3</sup> viz. the use of rental value as the principal basis of assessment, raises issues which are of more than purely local interest. The reliance on rental statistics for affording an indication of profits of agriculture has been advocated on the ground that the method is more definite and precise and that it enables the operations of the Settlement Officer to be checked more effectively than any of the other alternative methods depending upon crop experiments, prices, development of communications, etc. But the Bardoli imbroglio (1929) proved that rental statistics, unless used with great caution, are apt to lead to serious error and intolerable over-assessment. Actual rents may be very much higher than true rental values for a variety of reasons. There may be excessive competition among tenants; the landlord may be the creditor and the tenant the debtor, and the latter may be compelled to agree to an impossible

<sup>1</sup> Reduced to 25 per cent by the *Bombay Land Revenue Code (Amendment) Act* (1939).

<sup>2</sup> *Facts and Fallacies of the Bombay Land Revenue System*, p. 109.

<sup>3</sup> See however §27 above and §44 below.

rent; the rent may represent interest on money lent and may have no relation to the productivity of the land; figures of rent may relate to a period of boom and therefore be unreliable as guides for normal times; the rent agreed to may be on the basis of what the tenant can pay in a prosperous year and subject to substantial reductions in bad years; it may be paid largely out of income earned not from the land but from other sources; the proportion of lands leased for cash rents is much higher in the case of industrial crops like cotton than in the case of food-grains and will naturally bulk largely in the rental statistics, and although not typical, they are apt to be treated as such; occasionally fancy rents may be paid by a cultivator for land which has practically nothing else to recommend it except that it is adjacent to his land; only a very small fraction of the total amount of land in the tract under settlement may be leased for cash rents, and although rental values may, to some extent, be inferred from sale transactions (provided these are normal and not affected by any disturbing factors), the direct and indirect data thus collected may nevertheless be too inadequate for safe generalization.<sup>1</sup> In the words of the Bardoli Committee, 'a very wide margin must always be allowed for the eccentricities of the raw material', and the rental figures need to be subjected to a close scrutiny before being used for drawing inferences on which assessment is to be based. It may be conceded that rental data, if collected with proper care, tabulated in a manner which brings out their real significance and used with due reference to the meanings of the underlying transactions, afford almost the only positive evidence that can be used with confidence in revising the assessment. Every effort should therefore be made to collect trustworthy rent and sale statistics and compile them carefully.<sup>2</sup> But the task of judging the suitability of any given body of statistical and other information for the purpose of revising assessments must be entrusted not to the Settlement Officer or other Government officers but to a competent advisory committee. Further, even where the statistics of rental value appear to be fairly satisfactory in quantity as well as in quality, their indications should be tested with reference to other factors such as communications, market prices, economic conditions, crop experiments, etc. on the lines recommended by the Bombay Land Revenue Assessment Committee. It will be in very rare cases that such corroboration of rental data can safely be dispensed with.

We therefore welcome the clarification of the position regarding rental value in relation to assessment and the emphasis laid on other factors than rental value by the amendment of the Bombay Land Revenue Code effected in 1939 as also the opportunity given to any person aggrieved by the report of the Settlement Officer to raise objections to it.

§36. Ricardian theory in relation to the land revenue in India.—As we have seen above, the principles governing assessment vary from province to

<sup>1</sup> For a fuller discussion of these points, see *Bardoli Report*, pars. 29–38; also Gadgil, *Bombay Land Revenue System*.

<sup>2</sup> See *Bardoli Report*, par. 38.

province so far as their formal statement is concerned. The general claim of the Government, however, is that, in the net result, the land revenue forms everywhere in 'British' India a certain moderate proportion of the economic rent. This is clearly not the case if we take into account the large number of uneconomic holdings, the existence of which is not disputed by the Government. Here, as Wadia and Joshi remark : 'The land tax is not the appropriation of the soil, it is the appropriation of the bare minimum of subsistence left to the cultivator.'<sup>1</sup> In other cases, if in actual practice no more than the pure economic rent is taken, this could come about only by accident and not by design, since, in calculating the so-called surplus, not all the elements entering into the cost of production are deducted from the gross value. For example, the labour of the cultivating proprietor and his family is not allowed for in every case. Actual rental values on which the revenue rates are based, for example in northern India, are apt to be very much higher than the true economic rent in a country where agriculture is practically the sole occupation of the people and where there is no competition as between a variety of occupations for the available labour and capital. The cultivator sticks to the land although he may have to pinch and starve in order to pay an excessively heavy rent. 'With alternative occupations in the shape of industry and handicrafts, there can be no doubt that a large number of holdings cultivated under the pressure of necessity today would be thrown out of cultivation.'<sup>2</sup> Rental values are also unreliable as indices of economic rent because the land hunger due to pure economic necessity is further strengthened by the traditional sentiment in favour of investment in land, a sentiment which can weaken only when there arise a variety of alternative openings for the investment of capital through the development of industry. The economic rent in the Ricardian sense bears no certain and definable relation to the assessment, though we are not prepared to say that in every case the land revenue impinges on income that is 'earned'. Nor can we accept the contention that merely because land revenue is the first charge on the produce of the soil, it cannot be part of economic rent,<sup>3</sup> which, according to the Ricardian theory, is the last charge on the produce. When we say that economic rent is the last charge, we are not thinking of the sequence in time of the different payments but the sequence in the economic analysis of rent. Just as wages, although they ultimately come out of the produce due to labour, are yet paid in advance, similarly the rent charge may be realized before the surplus accrues, although in anticipation of its accruing. The true line of criticism would be to point out that assessment is sometimes charged and exacted when there is no chance of a surplus, and that it is not refunded or excused when the expectation of a surplus, however just, is not actually realized. The system of suspension and remission of revenue cannot be guaranteed to operate, and does not in practice in-

<sup>1</sup> *Wealth of India*, p. 281.

<sup>2</sup> *ibid.*

<sup>3</sup> *ibid.*

variably operate, so that the assessment should in no case trench upon any portion of the gross value which is not the true economic rent or unearned income.

§37. A new basis of assessment.—The Taxation Enquiry Committee recommended that a uniform basis of annual value should be adopted in every province, and that the function of the Settlement Officer should be confined to the determination of the annual value under such conditions as may be required by the special circumstances of each province. By annual value they meant 'the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family, and the return for enterprise'. In the case of rents controlled by tenancy laws, or by custom having the force of law, or where the rent is fixed by the Settlement Officer, it was recommended that such rent should be taken to be the annual value. This would put an end to the vagueness of the principles of assessment prevalent at present. Annual value, as we understand it, is not the same thing as actual competitive rental value which may be either too high—for example, if the competition among the tenants is excessive owing to absence of other occupations and the tradition and force of sentiment in favour of agriculture—or in rare cases it may be too low where, for example, tenants and landlords conspire and deliberately depress rents in order to escape their proper share of the burden of assessment. The basis of annual value is also more scientific, inasmuch as it allows for the labour of the cultivator and his family and also for return for enterprise.

§38. Rate of assessment: a recommendation.—As regards the proportion of the annual value to be taken, in imitation of the example of other countries, the Taxation Enquiry Committee recommended the adoption of a comparatively low standard rate which should not exceed 25 per cent of the annual value. As there would be difficulties about the immediate adoption of this recommendation owing to the absence of definite information as to the percentage of annual value actually taken in the various provinces, they suggested a preliminary expert inquiry to ascertain the rate at present exacted, before a common rate for each province be fixed by its legislature.

In addition to the standard rate, taxation for local purposes by local bodies was also recommended by the Committee, and it was further suggested that the maximum for the ordinary local rates should be in the neighbourhood of 25 per cent of the land revenue. Having regard to the fact that the local bodies would be composed largely of agriculturists and landlords, and the fact that the proceeds of the local rates would be spent on matters connected with improvements in the locality itself, it is anticipated that the sacrifice would be less reluctantly made than if it were imposed in the form of an enhancement of land revenue utilized for general purposes by the Government. The system of local rates super-added to a flat standard rate on land has been found to work satisfactorily in most European countries where it is in vogue.

§39. What should be the limits of enhancement?—In order to prevent too sharp an enhancement of the assessment, some further limit would seem to be needed. And we approve of the recommendation of the Bombay Land Revenue Assessment Committee to the effect that the limit of enhancement should be a general all-round limit of 25 per cent without distinction between groups, villages or holdings as at present, provided that the talukas in question have already undergone a second revision.

§40. Application of principles of taxation to land revenue.<sup>1</sup>—(i) The first canon of taxation, namely, that of certainty, may be said to be satisfied, land revenue being fixed for the period of the settlement. The cultivator knows exactly what he has to pay, although in so far as the basis of assessment is still vague, there is an element of avoidable uncertainty at the time of the revision of assessment. The introduction of a uniform basis of settlement as suggested above will largely remove this source of uncertainty.

(ii) The next canon is that of convenience. In order to satisfy this, the land revenue is collected, as already shown, in instalments suitable to the cultivator. There is, however, a certain amount of sacrifice of the principle of convenience to that of certainty, because the settlements are based on averages, the actual assessment fixed representing an average of what may be fairly demanded in good and bad years taken together. The assumption is that the agriculturist would save up during years of good harvest in order to meet the deficiency in bad years. This assumption, however, is not true to facts. Consequently, the average assessment is felt to be too rigid and oppressive in years of scarcity. The system of suspension and remission of revenue, as we have already remarked, is not worked with sufficient elasticity, and according to the Taxation Enquiry Committee, the inelasticity of the land revenue system has driven a large number of people to the money-lender during bad seasons. Another source of inconvenience, it may be said, arises from the long term of the settlement. The cultivator adjusts his standard of living on the basis of the land revenue he has to pay during the currency of a settlement, and if the assessment is appreciably enhanced at the next settlement, he finds it difficult immediately to adjust his family budget accordingly, though the long-term settlement is granted on the assumption that he would get enough time to prepare himself for a possible enhancement. An attempt is made to mitigate the hardship arising from this source by the progressive and graduated imposition of large enhancements, and also by limiting their extent.<sup>2</sup> The disturbance due to the process of re-settlement has been, as previously stated, reduced to a minimum by the gradual perfection of the system of land records, though in some cases this process may take years of meticulous inquiry to be completed.

(iii) As to the canon of economy, the heavy expenses on the revenue establishment that is maintained cannot be debited entirely to the work

<sup>1</sup> See *Taxation Enquiry Committee Report*, pars. 86–9.

<sup>2</sup> See *Land Revenue Policy of the Government of India*, pp. 38–40.



of assessment and collection of land revenue, much miscellaneous work of an important character outside the purview of land revenue proper being still discharged by the revenue agency.

(iv) As to the canon of ability, the official claim is that it is being increasingly satisfied on account of the progressive reduction in the share of the state. We have already given the figures in support of this contention. One of the results of the discussion about land revenue policy initiated by R. C. Dutt was the conversion of the standard rates into maximum rates.<sup>1</sup> The Taxation Enquiry Committee gave figures showing how the tendency for the state's share to diminish continued to operate from 1903 to 1924. During this period, while prices rose by 117 per cent, the land revenue rose by 20 per cent.<sup>2</sup> Besides, part of this rise in revenue must have been due to the increase of about 7 per cent in the area sown.

As regards the incidence of land revenue, owing to the variations in the systems followed between province and province and even between one district and another, it is impossible to obtain any general idea. Five possible criteria may be applied, namely, (i) the ratio borne by the land revenue to the population; (ii) the ratio borne by the land revenue to the occupied area, that is the average assessment per acre; (iii) a comparison of the assessment per soil unit; (iv) the ratio borne by the assessment to gross or net produce; and (v) the ratio borne by the assessment to rents or annual value. The Taxation Enquiry Committee accepted the last as the least unsatisfactory method, but, even in this respect, owing to the absence of full and reliable data, they were unable to arrive at any definite conclusion regarding the actual burden of assessment in the different provinces.

§41. Principle of formal justice.—This principle is violated under the present system of land revenue because, in the first place, there are inter-provincial, and, as we have remarked, even inter-district disparities, and in the second place, incomes from land are differentiated for purposes of taxation from other sources.

(i) *Inter-provincial disparities*.—Taking the first point, the permanently-settled areas are at present obviously much more lightly taxed than those under temporary settlement. As regards the latter, in 11 districts recently settled in the Punjab, the percentage of land revenue to net rental varies from 19 to 36 per cent, with an average of 25. In the

<sup>1</sup> R. C. Dutt suggested that the heaviness of land revenue assessment was one of the most important causes of the famines which visited the country during the last century, especially towards its close. As to the connexion between land revenue and famines, our views are analogous to those advanced in relation to the similar controversy regarding the connexion between land revenue and indebtedness. We hold that land revenue can only be regarded as a minor cause of famines, as it is of rural indebtedness, and for similar reasons.

<sup>2</sup> The heavy slump in agricultural prices during the depression years 1929-33, however, rudely disturbed the tendency referred to by the Taxation Enquiry Committee.

United Provinces, it varies from 20 to 42 per cent, with an average of 27. In the ryotwari provinces, in the case of Bombay, the percentage of assessment to rent varies from 17 to 50 in different parts of the province. In Berar, in the case of two cotton talukas recently settled, the average is 10 per cent. In Madras, it is apparently in the neighbourhood of 17 per cent in half of the districts.<sup>1</sup> These figures are not absolutely accurate, but they are sufficiently reliable as indications of the existence of very considerable inequalities in the burden of assessment in the various provinces. The dictates of formal justice would be satisfied if the recommendation of the Taxation Enquiry Committee with regard to the adoption of a uniform standard of 25 per cent of the annual value as the share of the state were carried into practice.

(ii) *Land revenue compared with income-tax.*—Coming to the second point, a comparison between the land tax and income-tax discloses three striking differences as regards the manner of treatment of the two kinds of income. The first is that, in the case of land, there is no tax-free minimum<sup>2</sup> as there is in the case of income-tax, and the second is that the percentage of the tax to the income is very much higher in the case of land revenue. The third difference is absence of progression. There are two ways of assimilating the two classes of taxes; one way is to make the income-tax conform in all particulars to the land revenue, and the other is to change the land revenue so that it resembles income-tax in every respect. The first course is not feasible, and would be a retrograde step because it would entail the abandonment of the sound principles of the exemption limit, and of graduation. Let us therefore examine the implications and the practicability of the second course and consider, in the first place, the effect of exempting incomes from land below the income-tax free limit of Rs. 3,000. This must at once be rejected as entirely visionary and impracticable at the present moment, because it would touch the financial solvency of the state; a similar conclusion will be forced upon us as regards the second difference noted above, and the principle of formal justice will have to be sacrificed to the principle of productivity or practical expediency. Even if the recommendation of the Taxation Enquiry Committee favouring standardization of the land revenue at 25 per cent of the annual value, with additions in the shape of local rates, is given effect to, the percentage will be higher than in the case of non-agricultural incomes (if we exclude from this category a small number of very high incomes which are liable to pay a very heavy percentage by way of income-tax and super-tax). The principle of progression may, however, be applied to land revenue, as in the more ad-

<sup>1</sup> See *Taxation Enquiry Committee Report*, par. 94.

<sup>2</sup> The fact that in theory the land revenue is taken only from unearned income can scarcely be regarded as compensating for the absence of a tax-free minimum. The range of agricultural incomes being generally very small, especially in ryotwari areas, most of them would escape taxation altogether if land revenue were fixed on income-tax principles as they stand at present.

vanced European countries and Japan, where agricultural incomes are assessed to the income-tax<sup>1</sup> or are liable to death duties.<sup>2</sup>

On the whole therefore a complete assimilation of land revenue to income-tax is not a matter of immediate practical politics, and for some time at any rate, the former will have to be treated for purposes of taxation as a thing *per se*. This, however, does not mean that it should for ever be allowed to stand outside the normal process of taxation. Land revenue as well as income-tax, which is by no means perfect as it stands at present, must be gradually modified till they both conform to the same principles of taxation. A sound tax must neither (i) remove or imperil any instrument of, or incentive to essential or useful processes of production, nor (ii) remove or impair any essential or useful element of consumption.<sup>3</sup> Obedience to these principles implies that only unearned surpluses, whether they arise from land or other sources, should be taxed, or, if both unearned and earned incomes have to be taxed, the latter should be taxed at a much lower rate than the former. The whole of the unearned income may theoretically be absorbed by the state, although only a certain percentage may be actually taken, so as to err on the side of safety and to allow for practical difficulties in the way of accurate calculations of the unearned income. The present system of income-tax is faulty because it taxes earned as well as unearned incomes at the same rate. The land tax is faulty in that it taxes the smallest agricultural incomes from holdings which are admittedly uneconomic. Again, land revenue is paid on all lands whether income is actually derived from them or not. Another difference between land revenue and income-tax is that the latter is levied on each individual on the basis of the income returned by him, whereas in the case of land revenue each single plot is not assessed separately and, owing to the method of average which must necessarily be employed, some plots may be over-assessed and others under-assessed. Further, in theory the land revenue is supposed to be a portion of a surplus, but obviously in the case of uneconomic holdings there is no surplus, and yet they are assessed to the land tax. This raises the question how far it is practicable to exempt from land revenue holdings which are below a certain size. Here again, we are up against the difficulty that an immediate exemption of all uneconomic holdings would involve the Government in great financial embarrassment. There is also another consideration, namely, that people have been used to the land tax in this form from time immemorial, and it is acquiesced in and paid without demur, and thus the injustice is not vividly felt by the taxpayer.

<sup>1</sup> The proposal of Sir Walter Layton, Financial Assessor to the Simon Commission, to levy an income-tax on agricultural incomes, which are at present exempt from it is discussed in vol. II, ch. xii, §11.

<sup>2</sup> The Taxation Enquiry Committee, accepting the view of Dr Gregory, considered that the land revenue is essentially a tax on things and not persons and that therefore it is not susceptible to the direct application of the doctrine of progression (*Report*, par. 89).

<sup>3</sup> See J. A. Hobson, *Taxation in the New State*, p. 10.

At the same time, there is no doubt that if we wish to rationalize our system of taxation, uneconomic holdings will have to be exempted sooner or later,<sup>1</sup> and also earned incomes from land below a certain minimum identical with that which, under an improved system, may be deemed suitable for non-agricultural incomes.

A not very forcible objection against the exemption of uneconomic holdings is that it would encourage subdivision. The proper remedy for dealing with the evil of subdivision is to do so directly by suitable legislation and not indirectly by a manipulation of the land revenue system.

§42. Legislative control.—The principle of legislative control of matters connected with land revenue is not novel in India. There had been already, in some provinces like Bombay, an attempt on the part of the legislature to regulate the administration of land revenue by special statute such as the Bombay Land Revenue Code (1879). But the situation was unsatisfactory inasmuch as in some provinces there was no legislative control whatever, whereas in others, where it did exist, it was of the most meagre description, and it was necessary to extend it in order to redeem the land revenue system from the charge of executive arbitrariness which was made against it.<sup>2</sup> In this connexion, the following words of the Joint Parliamentary Committee (1919) are worth quoting: 'The Committee are impressed by the objections raised by many witnesses to the manner in which certain classes of taxation can be laid upon the people of India by executive action, without in some cases any statutory limitation of the rates, and in other cases, any adequate prescription by statute of the methods of assessment. They consider that the imposition of new burdens should be gradually brought more within the purview of the legislature. And in particular, they advise that the process of revising the land revenue assessment ought to be brought under closer regulation by statute. The Committee are of opinion that the time has come to embody in the law the main principles by which the land revenue is determined, the method of valuation, the pitch of assessment, the periods of revision, the graduation of enhancements and the other chief processes which touch the well-being of the revenue payer.' The Committee thought that this reform was a necessary preliminary before the subject was transferred to Ministers after securing adequate representation to the rural classes on the Legislative Councils.

✓§43. Progress of land revenue legislation.—The above recommendation provoked much discussion in the provincial legislatures, which have either adopted or have been considering measures for closer regulation by law of (i) the principles of settlement and the determination of the standard rate of assessment; (ii) the limitation on enhancement at revision settle-

<sup>1</sup> For an ingenious, though fallacious, argument against the exemption of uneconomic holdings, see Anderson, *op. cit.*, pp. 14-16.

<sup>2</sup> See Government of India Dispatch on the Constitutional Reforms of 1919, Sir Sankaran Nair's Minute of Dissent.

ment ; and (iii) the period of settlement. In 1928-9, bills embodying the principles of land revenue assessment in a statute were passed by the Legislative Councils of the Punjab, the United Provinces and the Central Provinces.<sup>1</sup> The Punjab Land Revenue Amendment Act (1929) fixes the share of the state at one-fourth of the net assets, and extends the period of settlement to 40 years. Legislation has not been considered necessary in Bengal, Bihar, and Orissa, as large territories in these provinces are under Permanent Settlement. In Madras and Assam<sup>2</sup> attempts to secure legislation regulating the assessment of land revenue have not proved successful. In Bombay, the Land Revenue Assessment Committee was appointed in June 1924, in accordance with a resolution passed by the Legislative Council. The non-official members of the Committee strongly recommended that a Standing Advisory Committee of the Legislative Council should be set up to examine all revision settlement proposals and that, if the recommendations of the Committee were not accepted by the Government, the proposals should not be put into force without express sanction of the Legislative Council. Such a committee would be highly desirable in view of the natural bias of the executive towards stressing the financial point of view, to the prejudice of the revenue payer.<sup>3</sup> The Bombay Government, who were opposed to this proposal, later modified their attitude of uncompromising resistance to any form of non-official control and gave an assurance in connexion with the proposed amendment of the Bombay Land Revenue Code (see §44 below), that an opportunity would be given, not only to the landholders concerned but also to public bodies and associations, to discuss the Settlement Officer's proposals.

The advent of Provincial Autonomy in April 1937 and the acceptance of office by Congress Ministries gave a further impetus towards land revenue reform in most provinces, and widespread changes in respect of the system of land revenue assessment are in the process of being made everywhere.

§44. The Bombay Land Revenue Code (Amendment) Act (1939).—The Congress Government of Bombay introduced in April 1939 in the Legislative Assembly a bill to amend the Land Revenue Code in order to give effect to the recommendations of the Land Revenue Assessment Committee, with certain modifications. The bill, which has since become law and come into force, seeks to regulate land revenue assessment in the province by

<sup>1</sup> See *India in 1928-9*, p. 321.

<sup>2</sup> In Assam a bill was passed in September 1930 fixing the maximum pitch of assessment at 10 per cent of the value of the gross produce as against the 12½ per cent proposed by the Government. The latter figure had been agreed upon as the result of a compromise with the representatives of all the parties in the Council. The bill was returned by the Governor for reconsideration by the Council, which refused to accept the higher limit. The Governor therefore withheld his assent to the bill. See *India in 1930-1*, p. 577.

<sup>3</sup> See Government Resolution of 1927 on the *Report of the Land Revenue Assessment Committee, Bombay* (1926), and the Report by the official members of the Committee.

statute. Under the Bombay Land Revenue Code (Amendment) Act of 1939 the legislature has the determining voice in orders that might be passed in regard to settlements. Under the Act the term of settlement is not to exceed 30 years except when in the opinion of the Government a revision settlement is inexpedient. The standard rate of assessment with reference to any particular class of land in each group of homogeneous lands is to be so fixed that the aggregate assessment on occupied lands in any group shall not exceed 35 per cent of the amount of rental values of such lands for a period of five years immediately preceding the year in which settlement is directed.<sup>1</sup> Other fundamental matters connected with the process of settlement, such as the factors which are to be considered in forming groups, exemption of the increase in the value of land due to private improvements from increased assessment, the mode of assessment and the limits of enhancement, are also regulated by the new Act.<sup>2</sup> Provision has been made for the publication of the Settlement Report in each village and inviting objections from any person as also for referring the Report to the Revenue Tribunal constituted under the Bombay Revenue Tribunal Act, 1939, on application from any person aggrieved by the report. Before the provincial Government issues orders on the Settlement Report, it has to be placed—along with objections received, and the opinion of the Revenue Tribunal on a reference, if any—on the table of each Chamber of the provincial legislature. The new Act enables the Government to adjust the assessment in accordance with the fall or rise in prices of agricultural products in suitable cases.<sup>3</sup>

<sup>1</sup> For further particulars see §27 above.

<sup>2</sup> See also §27 above.

<sup>3</sup> See *Bombay Government Gazette*, 16 February 1939, Act No. XII of 1939; also §27 above.

## CHAPTER XIII

### *INDUSTRIES : A GENERAL SURVEY*

§1. Industrial history of India during recent times.—In this chapter we propose to take a general survey of the industrial position of India. In Volume II we shall deal with more specific problems such as protectionism, large-scale industries and cottage industries. We have already traced the industrial history of India up to about the end of the nineteenth century.<sup>1</sup> And we have seen how she was, roughly till the beginning of the nineteenth century, both a manufacturing and an agricultural country, how her industries had attained a high state of perfection judged by contemporary standards, but how they began to languish from the end of the eighteenth century as a result of several unfavourable influences. After the eighties of the last century, and more particularly from the beginning of the present century, the backwardness of India in industrial matters began to attract the notice of patriots and economists such as Dadabhai Naoroji and Ranade, and it was held responsible for the recurrent famines from which the country suffered, and the grinding poverty of the masses of which the famines were a symptom. The Famine Commission of 1880 had hit the right nail on the head in pointing out that one of the main reasons for the recurrence of famine in India was the absence of diversity of industries, and insisted upon this being remedied. A similar diagnosis of the situation was presented by the Famine Commission of 1901 and an identical remedy proposed. The opinion began to gain ground that nature had not destined India to remain for ever dependent on other countries for manufactured goods. Even the few industries that happened to have struck root in the country without the assistance of the Government owed much to foreign capital and enterprise.

This was a position which could hardly be regarded as satisfactory from the national point of view. The feverish activity of the Japanese Government, which had brought their country into the forefront of industrial nations within a marvellously short period, stood in painful contrast with the apathetic attitude of the Government in this country. The cotton excise duties imposed towards the close of the last century under pressure from Lancashire lent colour to the suspicion that the Government were worse than merely indifferent to industrial development in India. In these circumstances, it is not surprising that the economic discontent due to the poverty of the masses and the lack of industrial outlets to educated middle-class youths began to assume a political complexion. The institution of the Indian Industrial Conference in 1905 in association with the Indian National Congress was the first definite sign of the

<sup>1</sup> *Ante*, ch. v.

alliance between economic and political discontent—an alliance which was immeasurably strengthened in the agitation for securing the annulment of the partition of Bengal. 'The swadeshi movement was the positive and the boycott the negative expression of the same purpose.'<sup>1</sup> A great wave of industrial enthusiasm overran the whole country. Numerous factories for the manufacture of textiles, hosiery, pencils, cutlery, matches, glass, etc. were started, but most of them came to grief for lack of practical training and even more owing to want of business experience, and lastly, because the state did not so much as raise its little finger to prevent their collapse. The policy of differential railway rates was allowed to continue, to the prejudice of Indian manufactures. Competition from abroad was permitted to run its course unhindered by protective tariffs or other means. This attitude was not entirely due to the *laissez-faire* doctrines which had more or less consistently been the official creed. It was also caused by the association of the boycott with the swadeshi movement, which inevitably antagonized the Government. The failure, to whatever causes it may have been due, undoubtedly emphasized the lesson that, in this country, there was no chance for industries without the strong and vigorous backing of the Government, at least in the initial stages. Thus in the period before the war of 1914–18 Indian industries were very poorly developed. Practically the only large organized industries on a stable footing were the cotton mill industry of western India, the jute industry of Bengal and the coal mining industry of Bihar, Orissa and Bengal. It is necessary, however, to take note of one highly important step in industrial advance under Indian enterprise, namely the inauguration of the Tata Iron and Steel Company at Sakchi (Jamshedpur), which was founded in 1907 and commenced operations in 1912. Other miscellaneous industries such as cotton gins and presses, jute presses, paper mills, rice mills, sugar factories, petroleum refineries, leather works, engineering workshops, etc. had also come into existence, but they were not of sufficient magnitude or importance to deserve more than a passing reference here.

§2. Survey of the policy of the state in relation to industrial development.<sup>2</sup>—We may, at this point, pause to take a brief review of the various changes which state policy has undergone in relation to industries in India. It has already been noted how the East India Company's commercial instincts made it at first favour the improvement of those industries on which its export trade depended. But this policy had to be abandoned owing to the pressure of vested interests in England, and India came to be looked upon primarily as a valuable source of the raw materials necessary for developing the manufactures of England. This

<sup>1</sup> See *Montagu-Chelmsford Report*, par. 335.

<sup>2</sup> For a fuller treatment of the subject, especially relating to the period of 1914–22, see A. G. Clow, *The State and Industry*, chs. i–iii, *State Action in Respect of Industries, 1928–35*, Buchanan, *The Development of Capitalist Enterprise in India*, pp. 460–75, and G. E. Hubbard, *Eastern Industrialization and its effect on the West*, pp. 260–5.



attitude, which was a legacy of the old colonial policy, survived for some time after the Company had ceased to be a trading body, and even after its extinction and replacement by the direct rule of the Crown in 1858. What was at first dictated by self-interest, came later to be fortified by the dominance of the *laissez-faire* theory both in England and in India. The interest of the state in industrial development did show itself occasionally, but in a very fitful and haphazard manner, and it was ridiculously inadequate to the needs of the situation. For a long time it did not go beyond a very imperfect provision of technical and industrial education and the collection and dissemination of commercial and industrial information. A few industrial exhibitions were held and a certain number of provincial monographs on Indian industries were published, but so far as there was any activity on the part of the state, it was rather due to the energy of a few exceptionally far-sighted individual officers than to any considered and comprehensive policy laid down by the Government. A change, however, was gradually coming over the policy of the Government, and the first sign of it was the creation in 1905 of a separate Imperial Department of Commerce and Industries at the instance of Lord Curzon. In the meanwhile, individual provincial Governments, like those of the United Provinces and Madras, had begun to put forward programmes of industrial policy requiring close co-operation, help and guidance from the Government. For example, the Madras Government, encouraged by their successful experiment in the aluminium industry had committed themselves to an increasingly active participation in industrial development, which had resulted in considerable impetus being given to handloom weaving, the introduction of the chrome process of manufacturing leather, etc. A special official was appointed to supervise and stimulate technical and industrial education. But all these efforts which had already provoked the interested opposition of the European commercial community in India, received a sudden check by the 1910 Dispatch of Lord Morley, then Secretary of State, who, true to his *laissez-faire* creed, deprecated direct attempts on the part of the Government to start new industries, even for the sake of experiment and demonstration and with the object of eventually transferring them to private enterprise. 'The policy, which he was prepared to sanction, was that state funds might be expended upon familiarizing the people with such improvements in the methods of production as modern science and the practice of European countries could suggest. Further than this the state should not go, and it must be left to private enterprise to demonstrate that these improvements could be adopted with commercial advantage.'<sup>1</sup> This dictum of Lord Morley damped the enthusiasm of the Madras Government who, however, later on proceeded to better their instruction and retraced their steps farther backwards than was necessary.<sup>2</sup> Lord Crewe, the successor of Lord Morley, pointed out that the Madras Government had placed too limited a construction upon

<sup>1</sup> See *Industrial Commission Report*, par. 108.

<sup>2</sup> Pandit Madan Mohan Malaviya did not wholly subscribe to the view expressed

valuable, they would have been vastly greater if the country had been industrially developed. 'Nowadays, the products of an industrially developed community coincide so nearly in kind, though not in quantity, with the catalogue of munitions of war that the development of India's natural resources becomes a matter of almost military necessity.'<sup>1</sup> All these considerations resulted in the appointment of the Industrial Commission in May 1916 to examine the whole question of industrial development in India, and to indicate new openings for the profitable employment of Indian capital in commerce and industry and the manner in which the Government could usefully give direct encouragement to industrial enterprise. The Report of this Commission (1918) particularly stressed the importance of the active assistance of the Government in furthering the industrial development of the country with the aim of making India more self-sufficient. To this end, they considered it necessary that the Government should be provided with adequate administrative equipment and should command reliable expert advice on scientific and technical matters. One of their main recommendations therefore was in favour of the creation of special industrial and chemical services and the establishment of provincial Boards of Industries.

§4. The Indian Munitions Board.—In the meanwhile, the Indian Munitions Board had been established by the Government of India in February 1917, 'to control and develop Indian resources, with special reference to the needs created by the war, to limit and co-ordinate demands for articles not manufactured and produced in India and to apply the manufacturing resources of India to war purposes with the special object of reducing demands on shipping'. Although, under the terms of reference, the Board was required to concentrate its energy on its primary object of assisting the prosecution of the war, especially in the eastern theatres, it was able, within the limits set, to foster the development of indigenous industries in various ways, such as (i) direct purchase of articles and materials in India; (ii) the diversion, by means of the priority system and control over Home indents, of all orders from the United Kingdom and elsewhere to manufacturers in India; (iii) assistance to individuals and firms who desired to import plant or engage experts or skilled labour from abroad; and (iv) the dissemination of information and expert advice to persons prepared to establish new industries in India. In this manner, considerable stimulus was given to various industries, notably cotton, jute, iron and steel, and leather as also a number of others, such as engineering industries, manufacture of chemicals, mineral acids, oils, paper, glass, cement, cutlery, fertilizers, paints and varnishes, surgical instruments, etc.<sup>2</sup> The adoption of the system of Home indents and the priority certificate by the Munitions Board was tantamount to the acceptance of the principles of *swadeshi*, for the time being, by the Government, and these new departures from the traditional policy of *laissez-faire* showed how

<sup>1</sup> See *Montagu-Chelmsford Report*, par. 337.

<sup>2</sup> See S. G. Panandikar, *The Economic Consequences of the War for India*, pp. 103-9.

much could be done in the sphere of industrial development with the active co-operation and assistance of the Government. Departments of Industries were started by the end of the war in all the provinces as recommended by the Industrial Commission, and the Munitions Board was merged in the Imperial Department of Industry and Commerce. The Chemical Services Committee was also appointed as suggested by the Industrial Commission. The plan of an all-India chemical service was, however, subsequently dropped, and freedom of action in this matter was allowed to the provincial Governments, who became responsible for industrial development under the Government of India Act of 1919. Indeed, it may be observed here that the scheme adumbrated by the Industrial Commission, which assumed the initiative of the Central Government, could not fit in properly with the Montagu-Chelmsford Reforms of which the keynote was provincial autonomy.<sup>1</sup>

§5. Industrial boom after the war of 1914-18.—The cessation of the war was followed everywhere by a short period of boom and feverish industrial activity, caused by the expectation of a strong revival in demand for manufactures which had remained unfulfilled during the war, and of the continuation of the high level of war profits and inflation of currency. In India there was a period of great prosperity for the manufacturing and exporting industries, such as cotton, jute, cement, steel and iron, manganese, oil-seeds, hides and skins, etc. During the war company flotation was slow, owing to the difficulties in the importation of new plant, machinery, stores and technical experts. But after its close there set in a regular mania for company flotation, especially in the years 1919-21. High dividends were declared and the prices of industrial securities rose to unprecedented heights.<sup>2</sup> The currency policy of the Government, which caused violent fluctuations in the exchange value of the rupee, aggravated both the boom and the subsequent depression.

§6. Trade depression.—The boom was, however, short-lived though its duration varied in different industries. The tide definitely turned about the middle of 1920 and a prolonged period of economic depression set in. India, like many other countries, showed all the familiar symptoms of a trade cycle. The expectations of a firm demand and high prices were not fulfilled owing to the exhaustion brought about by the war and the deflation of currency which was now started in England and various other countries. Moreover, in India the big slump in the exchange value of the rupee in 1920-1 embarrassed the importers, who had counted on the exchange remaining high, while the exporters now felt the full force of the previous high level of exchange. The extension of old industries and the establishment of new ones planned during the boom period at inflated prices, now began to weigh on the market and aggravated the depression. There were heavy liquidations of companies and firms and the outlook

<sup>1</sup> See Clow, *op. cit.*, ch. iii.

<sup>2</sup> See *Textile Tariff Board Report*, Table VIII and *Bombay Stock Exchange Enquiry Committee Report*, p. 51.

for those who survived the crash was far from bright. The subsequent rise in the exchange value of the rupee from 1924 further prolonged the period of trade depression, intensifying as it did the force of foreign competition in the Indian markets at a time when the depreciated currencies abroad had already placed that competition at an advantage. The Tariff Board (see §8 below) thus felt constrained to allow for this handicap in making their recommendations for protection to the iron and steel and the textile industries, which, with the swing of the pendulum, had now to face heavy losses or had to content themselves with such paltry dividends as 4.9 per cent on the paid-up capital in 1923 and 2.2 per cent in 1925 and 1926. In these circumstances the stock exchanges became extremely unsteady and showed a marked bearish tendency. The New York crisis (1929) and the world slump in prices further intensified the trade depression in India, which being mainly an agricultural country suffered more than industrial countries like Great Britain.<sup>1</sup> The decline in the purchasing power of the agriculturist brought about by a big drop in the prices of agricultural products adversely affected the fortunes of Indian industry. The agricultural depression abroad reduced the demand for Indian jute manufactures in the foreign markets. Further, the depression in the industrial countries and the depreciation of currencies practised by some of them intensified the competition of foreign-manufactured goods in the Indian market, and served to accentuate the depression of prices of industrial products.

§7. *Industrial recovery and recession.*—As in most countries which suffered from the effects of the great depression, particularly in the sterling group, the first definite signs of an upward movement in industrial conditions made their appearance in India during and after 1932. Production in all industries except coal recorded considerable increases. The largest increase was in the case of sugar, its production more than trebling itself during the period 1929–30 to 1936–7. The next largest increase was in the case of cotton piece-goods, where the yardage produced was nearly doubled in the same period. Cement, steel and iron, paper and jute manufactures also registered substantial increases.<sup>2</sup> This remarkable increase in industrial production despite the reduced purchasing power of the agriculturist is explained by the stimulus given partly by the protection enjoyed by several Indian industries, especially sugar, textiles, steel and iron, and partly by the imports of cheap machinery and stores. The funds released in the money market by the sale and export of large quantities of gold after September 1931 made a larger amount of capital available, thus facilitating the floating of a large number of joint-stock companies in India.<sup>3</sup> Finally, the swadeshi spirit encouraged by the Indian National Congress also considerably helped the expansion of Indian industry.

The year 1937–8 witnessed a sudden and rapid change from boom to

<sup>1</sup> For a discussion of the causes of the world economic depression and its effect on India see vol. II, chs. vi and x.

<sup>2</sup> For further particulars, see vol. II, ch. ii.

<sup>3</sup> See vol. II, ch. ix, §22.

relative depression popularly called 'recession'. At the beginning of the year there was great activity in the various commodity and share markets. Optimism and confidence pervaded the business community, leading to the familiar symptoms of the trade cycle, namely, speculation and over-trading. The recovery in agricultural prices and increase in the world trade in agricultural products and raw materials in the early months of 1937 had meant a growing income for India's large agricultural population.<sup>1</sup> This increased purchasing power in the hands of the agriculturists brought about a better demand for the products of Indian industries, the position of which consequently became much better than for many years past. Further advance in industrial production was made, especially in the first half of 1937-8. The production of sugar increased the most. The cotton mill industry attained a new record, as also the production of steel manufactures. The coal industry also had a larger output to its credit. The output of the jute industry increased abnormally after the breakdown of the agreement regarding working hours. But the tide turned in 1937-8 and the prices of primary commodities and share values declined sharply. Industries resisted the downward movement for some time; but after October 1937, when world conditions following in the wake of the recession of American origin deteriorated still further, the resistance of most Indian industries gave way and they succumbed to the general depression in the commodity and share markets. An upward movement in industrial profits and security values was noticeable at the end of June 1938 following early signs of recovery in the U.S.A. and the United Kingdom; but the improvement was not maintained, the tense international situation being one of the depressing factors. The same factor militated against a sustained recovery in the first eight months of the year 1939 prior to the outbreak of war. There was generally a dull feeling in the industrial share market with the exception of iron and steel shares, which were steady owing to sustained production in the industry.

§8. Introduction of protective tariffs, etc.—A large part of the stimulus received by Indian industries during the war of 1914-18 was necessarily temporary in character and ceased to operate with the cessation of the war purchases of the Government and the re-appearance of normal trading relations with other countries, after the Armistice in November 1918. Indian manufactures were again subjected to the full force of foreign competition helped by the absence of any protective tariff barriers, apart from enhanced import duties imposed for revenue purposes under the financial stress caused by the war. In these conditions, the long-standing demand for a revision of tariff policy again became more vocal and insistent than ever. The subject of tariff policy had been excluded, much against popular wishes, from the terms of reference of the Industrial Commission, on the ground that it was not desirable at that juncture to raise any question of the modification of India's fiscal policy. The sup-

<sup>1</sup> See vol. II, ch. vi, §8.

port lent by the Montagu-Chelmsford Report to the view that, since the theoretical free trader hardly existed in India, considerations of justice and fairness required that Indians should have full liberty of deciding their own tariff policy and that the Government had no right to force their free trade convictions on them, strengthened the hands of the protectionist party in India. Of similar tenor and significance was the recommendation of the Joint Select Committee on the Government of India Bill of 1919, that a convention in favour of fiscal autonomy should be established. This was subsequently accepted by the British Parliament. The question of regulating inter-imperial fiscal relations on the basis of a system of preference in favour of goods of Empire origin, which the war had brought into prominence, once more threw into relief the general question of the tariff relations of India with other countries. The Committee of the Imperial Legislative Council appointed by the Government of India in February 1920, to report on the feasibility of Imperial Preference and the future fiscal policy of India, declared its inability to make definite recommendations on the latter question and suggested a special commission of inquiry for the purpose. This eventually led to the appointment of the Fiscal Commission in October 1921. The policy of discriminating protection, to be administered through an expert body called the Tariff Board, recommended by the Commission, was accepted by the Government of India early in 1923. In accordance with that policy, a Tariff Board was instituted to examine the claims for protection of several industries. On its recommendation protection was granted to steel and iron, cotton textiles, paper, matches, sugar and other industries.<sup>1</sup>

The indifference of the state towards industrial development which so long seemed to lie as a blight on the economic aspirations of the country was thus apparently abandoned, and instead of repeating the barren formulæ of free trade and *laissez-faire* in the sphere of industry, the Government began to make some positive efforts to help industrial development to proceed along sound lines.<sup>2</sup> This change in the industrial policy of the state gathered fresh momentum with the outbreak of war in 1939 (see §§10-14 below) although it was generally felt that even greater activity might have been shown by the Government, in order to bring about rapid industrialization.<sup>3</sup> With proper guidance on the part of the state, substantial progress in industrialization can be achieved within a comparatively short time. We do not agree with Calvert's opinion that 'little but failure and disappointment will result from any attempt to compress six hundred years of the industrial history of Europe into a short period of state-subsidized activity'.<sup>4</sup> The rapid industrialization of Germany and Japan in the nineteenth century proves the unsoundness of such a con-

<sup>1</sup> See vol. II, ch. ii.

<sup>2</sup> See vol. II, chs. i and ii for the various measures adopted by the Central and Provincial Governments to encourage the growth of large-scale and cottage industries.

<sup>3</sup> See V. K. R. V. Rao, *What is Wrong with Indian Economic Life?*, pp. 83-94.

<sup>4</sup> *Wealth and Welfare of the Punjab*, p. 176.

tention. A similar argument used to be advanced in the sphere of politics, and it was suggested that what took England a thousand years of constitutional evolution, could not be achieved in India in a generation or two. But surely one may profit by the experience of other countries, and this ought to shorten the period of evolution in economic as in political matters.

§9. The Congress move for industrial planning for India.—A significant development in the recent industrial history of India is the Congress move for industrial planning for India. For nearly two decades the Indian National Congress was wedded to the policy of reviving and encouraging cottage industries and was generally opposed to industrialization in the modern sense of the term, involving the development of large-scale mechanized industries. The only constructive contribution of the Congress on the economic side of its activities was the establishment of the All-India Spinners' Association and the All-India Village Industries Association. This policy was modified, thanks to the able lead given by Mr S. C. Bose, the ex-Congress President, and Mr V. V. Giri, former Madras Minister, who were responsible for convening a Conference of Industries Ministers from the 'Congress' provinces at Delhi in October 1938. The Conference came to the conclusion that the problems of poverty and unemployment, of national defence and of economic regeneration in general could not be solved without industrialization. A community which resisted industrialization had little chance of surviving international competition.

As a step towards such industrialization the Conference drew up a comprehensive scheme of national planning. The scheme emphasized the urgency of taking steps to start key industries of national importance, such as the manufacture of machinery and plant and tools of all kinds, manufacture of automobiles, manufacture of electrical plant and accessories, manufacture of heavy chemicals, power generation and supply, etc. For preliminary work the Conference appointed a National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru. The Committee was formally constituted at Bombay about the middle of December 1938 and soon after issued a comprehensive questionnaire relating to the entire economic life of the country, including large-scale, medium-scale and cottage industries, agriculture, transport, and trade. Later 29 sub-committees on various subjects were constituted. To these two more sub-committees were subsequently added, viz. on Census and Statistics and Publicity. About twenty of them reported to the National Planning Committee, which published its broad conclusions on the recommendations made by the sub-committees. The National Planning Committee tentatively desired so to prescribe the standard of achievement and the period within which that achievement could be made as at least to double the standard of living including not only the absolute necessities but also the amenities of civilized existence within a period of 5 to 10 years.

The change in the political situation in the country following the outbreak of war in September 1939 and the resignation of Congress Ministries gave a setback to the work of the National Planning Committee which only resumed its activity after five years of quiescence in September 1945. The work of the Planning Committee was hampered by inadequate finance and absence of full and precise statistical data and whatever conclusions it arrived at were too vague and too much taken up with generalities to be practically useful. The best-known of the other non-official plans is the Bombay Plan, of which a brief account has been given in §15 of Volume II of this book. The different provincial Governments and some of the major Indian States formulated their own plans for post-war reconstruction. It is for the Central Government to co-ordinate these various schemes and execute a carefully conceived programme of development in the interests of the whole country.

§10. *Industrial development during and after the second world war.*—We may now examine the various factors which to some extent favoured industrial development during the 1939–45 war. In the first place, the drastic curtailment and restrictions on imports created conditions of quasi-monopoly for many of the Indian industries in the home market. Secondly, the increased demand from the Commonwealth for war materials, and India's own defence requirements, called for greatly increased industrial activity and exploitation of the country's industrial potentialities. The role of India as the leader of the Eastern Group of Commonwealth countries and provider of the allied armies in the Near East was indicated by the session of the Eastern Group Conference at New Delhi in October 1940, the visit of the Roger Mission to this country and the location of the Eastern Group Council in India. Similar significance attached to the visit to India in April 1942 of the American Technical Mission under the Lease-Lend Act. The modernization of the Indian army as recommended by the Chatfield Committee supplied a further incentive to the industrial development of India. These developments were borne out by striking facts and figures. Overseas war orders exceeding Rs. 160 crores were placed in India during the first two years of the war. The Department of Supply, corresponding to some extent to the Munitions Board set up during the previous war, alone executed orders worth over Rs. 56 and Rs. 76 crores in the first and second year of the war respectively. These orders covered a wide range of manufactured goods such as cotton textiles, jute, iron and steel, engineering stores, leather, etc. A big scheme of expansion of war factories in addition to the increase of production in the ordnance factories was put into operation by the Government of India, which fostered industry, encouraging substitutes and adjusting specifications to increased output. It was estimated that as many as 20,000 articles required by a modern army thus came to be manufactured in the country. India was eventually producing 90 per cent of her war requirements and sending abroad large quantities of arms, ammunition, shells, rifles, sandbags, saddles, electric cables, road-rolling plant, electric fans, greatcoats, etc.



Another favourable factor was the further liberalization of the industrial policy of the Government of India during the war. Assurance was given of protection against unfair competition from outside after the war to industries created to meet war requirements, as in the case of the steel pipes and tubes industry or the aluminium industry. Secondly, the Government of India started a Board of Scientific and Industrial Research in 1940, whose finances were in the subsequent year placed on a firmer footing by the establishment of a separate Industrial Research Fund with an annual allotment of Rs. 10 lakhs for a period of five years. Thirdly, the Government of India tried to remedy the shortage of technicians and skilled workers, partly by launching the scheme for training war technicians recommended by the Sargent Committee and partly by taking advantage of the facilities offered to Indian apprentices for technical training in factories in the United Kingdom under the Bevin scheme. Finally mention may be made of a number of Committees set up to deal with post-war reconstruction and the problems relating to transition from war to peace economy.

§11. Reconstruction Committees set up.—Early in June 1941 the Government of India made an announcement regarding the constitution of the Post-War Reconstruction Committee to consider questions relating to the post-war economic reconstruction of India. At its first meeting, held on 23 June 1941, this Committee, consisting of the Secretaries of the Government of India in all its Departments presided over by the Commerce Member, decided to set up four sub-committees to deal with different aspects of post-war reconstruction. These sub-committees, consisting of officials and non-officials representing trade, commerce and industries, were as follows: (i) Labour and Demobilization Committee; (ii) Committee on Disposal of War Contracts; (iii) Committee on Public Works, and (iv) Committee on International Trade and Agriculture. Subsequently a fifth Committee, drawn from Indian Universities, was set up. The official Reconstruction (Co-ordination) Committee was intended to co-ordinate the activities of the five Committees mentioned above and to supply the necessary materials to them. The Co-ordination Committee was to receive the reports of other committees and guide them whenever necessary. On the recommendation of the Co-ordination Committee the Governor-General-in-Council was to take such action as might be considered necessary.

(i) *Committee on Labour and Demobilization*.—It was the duty of this Committee: (a) to form a statistical estimate of the increasing volume of employment in the industries primarily affected by war demands, viz. ordnance and clothing factories, engineering, textiles, etc.; (b) to consider how far labour actually employed in a given direction could be employed in other directions without retraining; what, if any, arrangements for retraining could be instituted and what the direction of retraining should be; finally, whether any arrangements for relief works would be necessary and, if so, where and under what conditions of pay,

terms of employment, etc.; (c) to keep in close touch with the army authorities so that their plans of demobilization should not accentuate the problem of employment on the cessation of hostilities (the army should, therefore, keep an accurate record of the former occupations of recruits); and (d) to consider whether the existing facilities of linking up the prospective employer with the employee were adequate in view of the employment crisis in the post-war period.

(ii) *Committee on Disposal of War Contracts*.—It was the duty of this Committee to suggest arrangements so as to prevent the whole economic structure from being demoralized by a sudden cessation of war production, to taper off war-production as commercial demand expanded and to arrange for the orderly disposal of surplus stocks so as not to break prices and check incipient demands for new production.

(iii) *Committee on Public Works and Government Purchase Policies*.—This Committee was to consider the problem of utilization or re-employment of demobilized labour on a large scale, and to suggest an agreed public works policy, the object of which would be to accelerate public works as the various demands for war purposes tapered off.

(iv) *Committee on International Trade and Agriculture*.—The last Reconstruction Committee was to concern itself with trade, international trade policy and agricultural policy.

§12. *Consultative Committee of Economists*.—Besides the four Reconstruction Committees, a Consultative Committee of Economists drawn from the various Indian Universities was also set up to co-operate with the various Reconstruction Committees, and to offer advice to the Government regarding the solution of post-war reconstruction problems in the light of the materials and data placed at the disposal of the Committee. Presiding over the first meeting of the Consultative Committee of Economists held on 24 October 1941, Sir A. Ramaswami Mudaliar indicated the nature of the task before the Committee, which should address itself to the formulation of positive alternative policies for ready application. These related to questions such as the following: what should be the post-war policy of the Government regarding trade and industrial developments? How could their progress be ensured on lines planned in advance? How far can India be economically self-sufficient and how far is it desirable to aim at this goal? At a later stage the Committee of Economists was expected to deal with various post-war problems of currency, exchange, banking, etc.

We may conclude with a brief sketch of the machinery of economic planning set up in response to the demand for rapid industrialization which, in the course of the war, gathered irresistible strength.

The publication of the Bombay Plan early in 1944 undoubtedly stimulated the interest of the Government in the question of industrialization and forced it to take concrete steps towards its solution. A special department called the Planning and Development Department was created and began to function in August 1944, but was closed in 1946, before the

establishment of the Interim Government. It was specifically charged with the task of Industrial Planning. A separate office under the Industrial Adviser was attached to the Department for this purpose. Twenty-nine special panels were created, each of which was assigned one or more industries for which it was expected to plan and report to the Industrial Adviser. There were also a number of Policy Committees on different subjects such as Transport, Trade, Posts and Aviation, Industries, Shipping and Agriculture, with officials and non-officials as members and representing the Central Government as well as the Provinces and the States, which were to meet once or twice a year to review the work done and lay down a policy for the future.

At the instance of the Planning and Development Department, the different provinces prepared their own Five-Year Plans, which were however, mainly a collection of the schemes put forward by the different Government departments for their own expansion and development.

The abrupt termination of hostilities and the serious food situation due to widespread failure of crops, and later the problems of refugee rehabilitation and of inflation, compelled the Government to drop for the time being some of the most ambitious plans and select for implementation only those which were considered most urgent or which had already progressed too far to be halted and those which were likely to be productive within a short period.

Apart from the stark necessity of facing these grave immediate issues, there are other causes why solid results could not be expected from the planning machinery outlined above, which suffered from serious defects of organization. The Department of Planning was not invested with powers to direct and control central as well as provincial planning. While its functions in respect of industrial planning were defined with some precision, its functions in respect of other aspects of planning were left vague and undefined. Planning must be comprehensive and properly integrated to be fruitful of results. There have been too many planning agencies working in isolated compartments and for want of co-ordination the 'planning' is so chaotic as to be a misnomer, being in fact hopelessly unplanned.

§13. Handicaps of Indian industry.—India is still dependent on foreign supplies of machinery, essential stores and accessories. It was the difficulty of importing these freely which largely deprived India of the opportunity of building up her industry in the first world war. For the second time in a generation India was called upon to fight with inadequate industrial equipment. India also lacks the heavy chemical industries which are indispensable for industrial development. A further serious handicap is the shortage of experts and technicians, which caused one of the worst bottle-necks in India's war-supply programme.

In spite of these handicaps a number of industries benefited in different degrees by the conditions created by the war. These may be divided into two classes : (i) large organized industries, old and new, and

(ii) medium-sized and small-scale (including cottage) industries, old and new. In the first class may be included existing industries such as the iron and steel, jute, cotton, leather and tanning, woollen, chemical, sugar, paper, and cement industries.<sup>1</sup> Of special interest to India at the moment are new large-scale industries such as the aluminium and heavy chemical industries, new branches of engineering industry including machine-tools, and the aircraft and ship-building industries. In this connexion it may be observed that while the first world war stimulated the development of Indian industries turning out consumer's goods, the second war encouraged to some extent the establishment of 'key' industries turning out producer's goods or capital goods.

It is noteworthy that the war gave a stimulus to a number of medium-sized, small-scale and cottage industries. Among the small-scale and medium-sized industries which derived substantial benefit are those connected with the manufacture of glass, rubber goods, minor chemicals, stationery, buttons, durries, cutlery, sola-pith hats and mosquito-nets.

The pressure of war orders on the production capacity of cotton mills, and the realization that the cotton handloom industry could better supply certain textile articles such as surgical bandages, brought more work to the handloom weavers. Big orders for army blankets were secured by the woollen handloom industry.

§14. *American Technical Mission.*—We may here refer to the American Technical Mission, headed by Dr Henry Grady, which visited India in April 1942, and after carrying out an investigation into India's war production submitted its Report early in June 1942 to the Governor-General of India. Although the object of the Mission was to help India in all-out production to win the war, some of its recommendations are valuable even for purposes of peace-time reconstruction. For instance, the Mission recommended a drastic rationalization and regimentation of Indian industry, also a further investigation into the possibility of producing power alcohol, further measures to extend the availability of electric power, the expansion of the steel industry, measures to stimulate the production of aluminium, measures to conserve tin and rubber, the acceleration of the production of refined sulphur, etc. It favoured great augmentation of the training programme of the Government of India, both in special institutions and in industrial plants themselves. Regimentation of the economic life of the entire community is implied in the Mission's recommendation about industry.

§15. *Industrial backwardness of India.*—That the present position of India as regards industries is backward needs no labouring. This is indicated by the overwhelming predominance of agriculture in the national economy, the small number of towns, the large export of raw materials and large import of manufactured goods in normal years and the low national dividend. There is a limited development of industries, but in the first

<sup>1</sup> For particulars regarding these industries, except the sugar industry, see vol. II, ch. ii; for the sugar industry, see ch. vi above.

place it is uneven, being restricted only to those industries which have appeared to offer safe and easy profits; generally, commerce has been preferred to new industrial ventures as a profitable mode of investment. In the second place, the Fiscal Commission's observation that 'the development has not been commensurate with the size of the country, its population and its natural resources' is even today largely valid.<sup>1</sup> Even as regards those industries which have been established in the country firmly, for example the textile industries, there has been an almost exclusive reliance on foreign imports for the supply of accessories, stores and machinery, etc. The facility with which they could be imported on account of the anxiety of industrially advanced nations to secure the Indian market, combined with the policy of free trade, made the establishment of these industries a matter of difficulty. The Government's policy in the past of placing indents for their miscellaneous stores with the India Office, encouraged by the absence of a Stores Purchase Department in India, was not calculated to improve matters in this respect. India thus found herself without the basic equipment necessary for a stable industrial organization in the form of metallurgical and chemical industries. Iron and steel and the engineering industries existed on a negligible scale. India could not boast of so much as 'a machine to make nails or screws; though she could build a locomotive or a marine engine, provided most of the necessary parts were obtained from abroad'.<sup>2</sup> Chemical industries for the manufacture of acids and alkalis of industrial importance were practically non-existent and thus severely handicapped such indigenous manufactures as paper, matches, oils, explosives, dyes and textiles, which were compelled to depend on foreign chemicals. Another serious industrial deficiency has been the scarcity of foremen, engineers, technical and chemical experts, owing to the unsatisfactory nature of the facilities for industrial training in India, and the consequent dependence on foreign skilled labourers, technicians and experts.

India's sources of power have already been described, and we have seen that, although her position with regard to coal, wood-fuel or oil for the purpose of generation of power is not so favourable as is sometimes imagined, there are great possibilities of utilizing her large rivers and watersheds and harnessing them to industrial uses. Her forest wealth is immense, and the development of modern means of transport and research in forest products, together with a larger investment of capital, are likely to result in a stimulus to industries based on the great variety of the forest products of the country. So far as man-power is concerned, it is true that compared with European labour Indian labour is inefficient, intermittent and floating in character, but it is abundant in quantity and is capable of improvement in quality under a proper system of theoretical and practical technical training, better housing in industrial areas, welfare work, trade union organization and so on. As regards the paucity of com-

<sup>1</sup>Report, par. 41.

<sup>2</sup>Industrial Commission Report, par. 81.

petent managers, as Calvert observes, 'the best training for the future manager is to be acquired in the mill and amongst the men he is to manage. The art is picked up in the atmosphere of industry'.<sup>1</sup> Since the atmosphere does not exist at present on any appreciable scale, the country will have to follow the example of Japan and import foreign managers, when necessary, and, more important than this, send out young men to foreign lands to receive the requisite experience and training. A time will surely come when the required atmosphere will be created in the country and recourse to either of these methods will be superfluous. Indian capital has long enjoyed the reputation of being too shy, but it may be confidently expected to be less and less timorous if reasonable assurances are forthcoming that it can be invested with security and profit. The improving banking organization of the country, the assurance of a large home market and the enthusiasm for the industrial renaissance of India should further help in drawing out the savings of the people for purposes of productive investment in modern industries. The differential rates policy followed by the Indian railway companies—an evil, the existence of which was admitted by both the Industrial and the Fiscal Commissions—had long been a grievance of the Indian industrial and commercial community, the transfer of the principal railway systems to state management, the creation of the Rates Advisory Committee and, above all, the fact that railway policy is now controlled by an independent national government must hereafter make railway administration wholly sympathetic and helpful to the progress of industrialization. The problem of improving inland road communication, which is extraordinarily defective at present, especially in rural areas, is being tackled and road construction forms an important item in practically every plan of future development.

§16. Benefits of industrial development.<sup>2</sup>—The benefits which will accrue to India from industrial development are so obvious as scarcely to need formal statement. We have had many occasions for commenting on the great poverty of the Indian masses and the many weaknesses in our economic system to which it is due.

(i) One of these weaknesses is the excessive concentration of the productive energies of the people on one single occupation, namely, agriculture. An adequate development of industries will remedy this situation. It will make for a more even distribution of the population among a variety of occupations and bring about a more stable national economy. It will thus make the problem of famine relief much less serious than it is at present, by drawing off a certain proportion of the surplus numbers at present engaged in agriculture.

(ii) Secondly, the establishment of industries will lead to an increase in the national dividend and will enable the masses to raise their standard of living, which in its turn will increase their efficiency and hence

<sup>1</sup> *Wealth and Welfare of the Punjab*, p. 168.

<sup>2</sup> See *Fiscal Commission Report*, ch. iv.

their productive capacity. A beneficent spiral of action and reaction will thus be set up.

(iii) Thirdly, industrial development will improve the taxable capacity of the people through the increase in the national dividend and will enable the state to finance schemes of national regeneration which are at present held up for want of funds. It is also clear that a diversification of industry will make the system of taxation much more elastic than at present, for taxes on agriculture like land revenue are incapable of ready expansion, but taxes on other sources, of which the income-tax is the most outstanding instance, are to a large extent automatic and bring additional money into the state coffers without much difficulty.

There is no reason therefore to suppose that a policy of industrialization will adversely affect the central revenues owing to reduced receipts from import duties on foreign-manufactured goods. Moreover, while some of the existing imports may dwindle, other imports will take their place as the standard of living in the country rises. Altogether on a balance the public revenues will gain in consequence of the industrialization of the country.

(iv) Another important advantage of industrialization is its favourable reaction on national character and the scope it gives to diversity of aptitude and talent. It supplies an antidote to the intellectual inertia and conservatism which characterize a predominantly agricultural country, unless agriculture also is organized on industrial lines as in the United States and Denmark. Generally speaking, an industrial population is intellectually more alert, and towns have therefore always been the centres and radiators of civilization and culture. As Maitland says : ' There be thoughts which come to men when they are tightly packed.'<sup>1</sup> Industrial training will also offset that absence of practical grasp of affairs which characterizes the products of the too literary system of education which prevails at present, and will generally enable the people to shoulder better the new responsibilities which political independence has placed on them.

(v) Industrialization will further go a long way towards supplying a solution of the serious problem of middle-class unemployment which may loom large again in these post-war years. The young men will be relieved from the necessity of depending exclusively on Government service or a few overstocked professions such as law, medicine, etc.

(vi) The military importance of industrialization has already been discussed elsewhere.

(vii) Further, the unprofitable habit of hoarding which, although it is generally exaggerated, must all the same be admitted to exist, is likely to diminish with the greater opportunities for investment and the prospect of making handsome profits, which industrial expansion will offer. The joint-stock organization of modern industry serves to utilize small amounts of individual savings which would otherwise lie dormant.

<sup>1</sup> Quoted by Carr-Saunders, *The Population Problem*, p. 425.

There is the further consideration that wealth which is accumulated in industrial enterprises is more readily available for further employment as capital than similar amounts acquired, say, by way of agricultural profits.

(viii) Lastly, an extension of industry by increasing the output of national wealth will increase the resources of the people in general, and more particularly, of that section of the people which is engaged in industrial production, as wages and profits in industry are generally higher than in agriculture.

§17. Reactions of industry on agriculture.—The reactions on agriculture would be almost wholly beneficial. One reason for the languishing condition of Indian agriculture is, as we have seen, a deficiency of capital. This shortage of capital is likely to be remedied by the accumulations in industry being made available for investment in agriculture. We may recall in this connexion that the great advance of English agriculture during the period of the Industrial Revolution was financed by the profits made by the commercial and industrial magnates. The strong sentiment in favour of investment in land is sure to attract a considerable portion of the earnings of successful business men in much the same way as this happened in England, owing to the great political and social status attaching to the possession of land.

The effect on agricultural wages will be to raise them, especially in areas adjoining centres of industrial activity. One of the consequences of industrial advance would be a multiplication of towns and cities, and we have already noted that the propinquity of urban areas has a stimulating effect on rural populations, making them more progressive. Again, agriculture, in its capacity as provider of raw materials needed for industry, is sure to receive an impetus to enhanced production to meet the ever-increasing demand of the expanding industries.

It is sometimes argued that the development of industries, by drawing off the population from the land, will lead to a diminished food supply. However, having regard to the fact that at present the industrial workers are less than two per cent of the agricultural workers, it does not seem likely that even with a very rapid development of industries this distribution of population will be seriously altered in favour of industry and against agriculture. Besides we are looking forward to an era of improved agriculture which will enable a smaller population, not only to maintain production on the present scale but to increase it considerably by the adoption of up-to-date methods. The fear therefore that is sometimes expressed that agriculture may come to occupy a subordinate place as a result of industrialization is without any foundation. In any case, we must not make a fetish either of agriculture or of industry. Whether agriculture occupies the first or second place is after all immaterial so long as the nation divides its labour and capital between the two in such a manner as to maximize the national dividend. As a matter of fact agriculture is so much suited to the conditions of this country that it will



always retain its importance in India. This will be even more so if we allow weight, as we very well might, to the non-economic arguments in favour of agriculture, namely, that it helps to maintain a sturdy and prosperous yeomanry, which is the strongest bulwark of the state.

The controversy of agriculture versus manufactures is thus pointless and unreal. We have seen that agriculture stands to benefit vastly by industrial development, and it is equally true that the prosperity of industry is bound up with that of agriculture if only because the agriculturist in India will be the principal customer for the products of Indian industries.<sup>1</sup>

§18. Capital for industries.—This may be discussed under two headings: indigenous capital and external capital.

*Indigenous capital.*—We have remarked above that the indigenous capital supply of the country is tending to improve both in point of adequacy and venturesomeness, especially since the war of 1914–18. This is evidenced by the vast increase in Government rupee loans and in the paid-up capital of joint-stock companies registered in India. There is, however, still great scope and need for improvement as regards the increase and employment of the indigenous capital resources of the country, without which industrial development in India will be greatly retarded. This question has assumed great importance in view of the fact that industrial activity is no longer restricted to a few channels, such as those provided by the cotton and jute mill industries, but is in quest of other numerous fields, as exemplified by the establishment of the Tata Iron and Steel Works, cement factories, paper mills, sugar and glass factories, and the contemplation of a large number of ambitious schemes: for instance, in connexion with the greater utilization of the water-power possibilities of the country, and the production of machinery, automobiles, mill accessories, etc. All the other schemes contemplated by the various planning authorities require vast amounts of capital, and it is necessary to take proper steps to tap all the dormant capital in existence at present. In order to understand how this might be done, we must undertake a preliminary examination of the nature and extent of the capital available (i) in the mofussil and (ii) in the bigger commercial towns, and the manner in which it is employed.

(i) In the mofussil there is hardly any organization of capital owing to the practical absence of suitable banking facilities. The extension of commercial joint-stock banking presents special difficulties, although the position in this respect has been eased to some extent by the establishment of a number of branches of the Imperial Bank at the principal district towns. The Post Office Savings Banks, and latterly also co-operative banks, have been able to tap a portion of the rural savings, but on the whole, the village money-lender remains practically the only supplier of

<sup>1</sup> 'It is not a question of agriculture versus industry, but of the two great occupations expanding side by side, with agriculture always necessarily taking the lead.' (Calvert, *Wealth and Welfare of the Punjab*, p. 186.)

capital for the local needs of the agriculturist, artisan and petty trader. It is very rarely that he employs his capital in new enterprises. A large part of the savings of the well-to-do agriculturist is locked up in jewellery and hoards. Government officials and professional classes favour investment in land either by way of purchase or mortgage, though the banking habit is growing very much faster in the case of these classes than among agriculturists.

(ii) In the Presidency and commercial towns, the situation is somewhat more satisfactory. There are better banking facilities and greater readiness on the part of the people to invest savings in industrial and commercial enterprises, and, generally speaking, a well-considered and sound business proposition promoted by men of standing and technical knowledge does not fail to attract the necessary capital. But even here, difficulties are not altogether absent. The existing banking system is too inelastic from the point of view of industrial finance. The Imperial Bank is precluded from supplying long-term finance to industries and extending loans against mortgage of immoveable property under the existing law which remained unchanged in this respect even after the establishment of the Reserve Bank of India in 1935. Moreover, the Imperial Bank keeps a margin of 30 per cent or more in extending loans against the security of liquid assets. Other banks have followed this practice, which causes great inconvenience to industrial concerns. The exchange banks carry on a lucrative business in foreign exchange to which all their capital is devoted, and, moreover, most of them are foreign in management and capital. This precludes them from coming to the assistance of Indian industrial enterprises for lack of the necessary contact with indigenous industries and knowledge of Indian conditions; nor can they be expected to be very sympathetic to the needs of industrial development in this country. The Indian joint-stock banks have generally shown a tendency to adhere to orthodox commercial banking resting on short-term finance, and the experiments made by some of them (for example by the People's Bank of Lahore which went into liquidation in 1913) in the opening years of the present century to combine ordinary commercial banking with industrial banking proved a failure owing to the locking up of short-term deposits in long-term business which it involved, and also to the mistake, which was too commonly made by the banks, of sinking an excessive proportion of their funds in a single industry.

Owing to the difficulties of industrial finance, many of the large industrial concerns have at present to depend upon managing agents for the supply of both block (initial) and working capital. The managing agents also purchase large blocks of shares and debentures of the mills controlled by them, and it is mainly on their credit that banks lend to industrial companies.<sup>1</sup> 'The managing agency system is the Indian substitute for a well-organized capital market and an industrial banking system of

<sup>1</sup> See *Report of the Central Banking Enquiry Committee*, par. 350. See also S. K. Basu, *Industrial Finance in India*, ch. vi.

Western countries, and has come into existence by the sheer force of economic circumstances.<sup>1</sup> It is by no means a perfect arrangement and has many serious drawbacks.<sup>2</sup> Another source from which mills in Bombay, Ahmedabad and Indore obtain finance consists of deposits from the public. This is, however, a very unsatisfactory and precarious source of finance and has been aptly called a 'fair-weather friend'. When times are bad, these deposits are liable to be withdrawn from good as well as bad concerns, thereby aggravating the position at a time when all the resources are required to carry over what may be only a temporary period of depression. Lack of a recognized method by which the general public can obtain advice and assistance as regards investments also prevents a free flow of capital for industrial development.

We thus reach the conclusion that even in towns there is no adequate provision for the long-term finance required by industries. A few industrial banks were started, but the most important and the one which at first appeared to hold out the brightest prospects, namely, the Tata Industrial Bank, after a somewhat ineffective and inglorious career, soon abandoned the industrial side of its work and contented itself for a while with ordinary commercial banking and foreign exchange business, until it was eventually (1923) merged in the Central Bank of India, which is a purely commercial bank. The short career and failure of the Tata Industrial Bank may, among other reasons, be attributed to the fact that the Bank was started during a boom and had an extraordinarily difficult period to face. Moreover, it committed the blunder of becoming more or less the promoter and financier of concerns associated with one firm of managing agents.<sup>3</sup>

The difficulties of financing industrial enterprises operate with special force in the case of small middle-class entrepreneurs who, unlike the big industrial magnates and joint-stock corporations, cannot furnish the security of stocks or approved names. Co-operative credit is not suited to their case, being useful only for small artisans like the weavers. In these circumstances, there has been an insistent demand for some financial assistance on the part of the state directly or indirectly by some such means as guaranteed dividends, direct loans, purchase of finished products and so forth. The subject of industrial finance was reviewed at length by the Industrial Commission (1916-18) and later by the Central Banking Enquiry Committee (1930-1).

The chief method that commended itself to the Industrial Commission was the establishment of special industrial banks in India. They considered that the establishment of such banks, working on approved lines, was of sufficient national importance to justify Government assistance. What was required was a bank which could keep in touch with small industrialists, was able to estimate the prospects of a fairly extensive

<sup>1</sup> Panandikar, *Banking in India*, p. 215.

<sup>2</sup> A short account of the origin and working of the system is given in vol. II, ch. ii.

<sup>3</sup> See P. S. Lokanathan, *Industrial Organization in India*, pp. 258-9.

range of industries, and possessed funds which it could afford to lock up for a time in securities not readily realizable. They contemplated that, whatever other assistance the Government might give, they should supply expert advice to industrial banks through the Departments of Industries in order that the banks might be in a position to estimate the prospects of industrial projects seeking their assistance. The industrial banks would not themselves be able to enlist the services of experts, and the Government would do well to supply the need.<sup>1</sup> Problems in connexion with the constitution of industrial banks, as also the recommendations made by the Central Banking Enquiry Committee in favour of the establishment of Provincial Industrial Corporations and an All-India Industrial Corporation, are discussed in volume II.<sup>2</sup>

Pending the establishment of such banks, the Industrial Commission suggested that the existing joint-stock banks should finance middle-class industrialists by advancing loans, subject to a guarantee by the Government, after an investigation by the Director of Industries and his expert staff into the financial standing of the applicants and the prospects of their business. The Commission further recommended that the Government should always provide direct financial aid in a few cases, such as public utility enterprises or those of national importance. Such assistance might take the form of a guarantee of dividends, loans of money, an undertaking given by the Government to purchase the output, or state contributions to the share capital. All these forms of aid should be subject to suitable precautions in order to safeguard the financial interest of the Government and to prevent the concessions from being exploited by foreign capitalists. The financial stringency of the inter-war years was probably one of the reasons for the indefinite postponement of vital proposals, such as the establishment of industrial banks. It is true that State Aid to Industries Acts have been in operation in the Punjab, Madras, Mysore, Bihar, Orissa and Bengal since 1923 and State Aid to Industries Rules have been issued in Bombay. But these Acts have not been very helpful to industrial finance, and in the aggregate only small amounts have been advanced under their provisions.<sup>3</sup> The establishment of separate industrial banks therefore is still a desideratum. The comprehensive survey of Indian banking conducted by the Central and Provincial Banking Enquiry Committees also served to emphasize further the need for a satisfactory solution of the present difficulties of industrial finance. In the questionnaire issued by the Central Banking Enquiry Committee special prominence was given to the subject of industrial banks and credit facilities for India's main industries, and its recommendations, if given effect to, would place industrial finance on a progressive basis. State-

<sup>1</sup> See *Industrial Commission Report*, pars. 287-92.

<sup>2</sup> Ch. xi; see also *Report of the Central Banking Enquiry Committee*, pars. 401-9.

<sup>3</sup> For a detailed review of the working of these Acts in the various provinces, see *Proceedings of the Fifth Industries Conference* [Bulletin No. 50, of *Indian Industries and Labour*].

aided industrial credit corporations were established in 1936-7 in the United Provinces and Bengal.<sup>1</sup> The Bombay Industrial and Economic Survey Committee (1940) also strongly recommended a small Industries Bank for the financing of small-scale industries by the Provincial Government. The recent legislative action (Industrial Financial Corporation Act, 1948) taken by the Central Government to establish an Industrial Financial Corporation is discussed in vol. II, chap. xi, §55.<sup>2</sup>

§19. External capital.—The problem of external capital has come into special prominence since the adoption of the policy of protection in 1923. It is generally felt that the advantage of protection to the nation would be largely cancelled if foreign capital and enterprise were allowed, without let or hindrance, to take shelter behind the tariff walls. Even under the regime of free trade a considerable number of companies with foreign capital established themselves in the country. Indeed, as we have already seen, modern industrialism in India owes its inception to foreign capital. The question of the right policy to be adopted with reference to foreign capital was examined both by the Fiscal Commission (1921-2), and by the External Capital Committee, which was appointed in 1924 in connexion with the debates on the Steel Protection Bill in the Assembly.

§20. Amount of foreign capital.—It is difficult to form an accurate estimate of the amount of external capital invested in India, but there is enough statistical material for a rough estimate.<sup>3</sup> A recent estimate of foreign investments in India by B. R. Shenoy placed them at £2,275 millions in March 1945. This was arrived at as follows: Market value of external debt = £830.61 million; multiplied by the wholesale price index, this comes to £2,058 million. Add to this £162.40 million, which represents the foreigners' share in rupee loans. This is, however, a considerable overestimate as *inter alia* it does not take into account the large transfer of foreign business to Indian hands that has taken place since 1939.<sup>4</sup> Besides, full allowance for the actual rise in security and share prices, which in many cases are artificially inflated, is not justified, because even if it were decided to buy over all foreign assets, it would not be impossible to fix the purchase prices at fair and reasonable levels considerably lower than the current levels.

Further, Indians hold a large and increasing share both in external companies and in companies with rupee capital under non-Indian management, for example, in the jute mills, although as against this we must

<sup>1</sup> This question is discussed further in vol. II, ch. i, §14 and ch. xi, §54. See also N. Das, *Industrial Enterprise in India*, pp. 138-40.

<sup>2</sup> For further particulars, see *Report of the Bombay Economic and Industrial Survey Committee*, par. 219.

<sup>3</sup> See 'India Debtor or Creditor?', article in *Eastern Economist*, 24 May 1946.

<sup>4</sup> Since 1914 the tendency has been noticeable for the volume of Indian capital employed as well as the number of Indian concerns to increase more rapidly than foreign capital and foreign concerns. Conditions brought about by the 1939-45 war have greatly intensified this tendency.

note that companies with rupee capital registered in India may have a large number of foreign shareholders and the control may be in non-Indian hands. Cases in point are the jute mills of Calcutta, the Buckingham and Carnatic Cotton Mills, Madras, and the Cawnpore Woollen Mills.<sup>1</sup>

Apart from any question of an accurate computation of the amount of foreign capital in India, there is no doubt about the broad fact with which we are mainly concerned here, namely, that the total amount of foreign capital engaged in this country in some form or other is still considerable. Many of the large-scale business enterprises in India, such as banks, shipping companies, railways, insurance companies, tea and coffee plantations, mining companies, tanneries, etc., are carried on with the help of foreign capital, though in recent years Indian capital is striking out new paths for itself and also increasing as regards the aggregate amount.

§21. Foreign capital in India: main issues.—We may now consider the question of national policy with reference to foreign capital. Foreign capital may enter the country either as loan capital or as investment capital. It is generally agreed as regards the former that, while every endeavour should be made to mobilize the internal capital resources of the country, so long as indigenous capital is not forthcoming sufficiently rapidly and in adequate quantity, there is not only no objection to borrowing capital from abroad but it is positively advantageous to do so.

Other countries such as Japan<sup>2</sup> and the United States of America, although intensely nationalistic in feeling and policy, have encouraged the use of foreign capital in this form. Similarly, educated non-official Indian opinion has not opposed the use of foreign capital in this sense. R. C. Dutt, for instance, regarded the policy of raising capital abroad to finance state railways as sound and well-advised. The foreign investor is in this case merely entitled to the stipulated rate of interest and acquires rights of control only in the event of default. Instances of this class of foreign capital are furnished by the various state and municipal loans, bonds of port authorities, bonds and debentures of private companies and bank loans.<sup>3</sup> As Dr Slater put it, 'as no foreign control enters into the question, the main matters for consideration are . . . (i) can a new asset be created by means of an external loan which will yield a net annual

<sup>1</sup> In recent years there has been a remarkable increase in the number of joint-stock companies affiliated to a nominally Indian concern, e.g. by adding the words '(India) Limited'.

<sup>2</sup> Cf. 'India's position with regard to foreign capital is very different from that of Japan. Japan borrowed abroad to finance her industrial development, but retained control of capital in her own hands and eventually evolved from a debtor to a creditor nation. . . But India in comparison with Japan has suffered from the limitation that her use of imported capital has carried with it outside control over the choice of investments, and hence over the general trend of economic development.'—Hubbard, *op. cit.*, p. 273.

<sup>3</sup> See *External Capital Committee Report*, par. 17.

return, directly or indirectly, to the people of India, exceeding the stipulated rate of interest; and (ii) can the money be borrowed abroad on the whole to greater advantage than in India? If both of these questions are answered in the affirmative, obviously the use of external capital is advantageous.' The External Capital Committee, however, introduced a reservation to the effect that, in the case of Government and quasi-Government loans, the rate of interest should not be the sole consideration between an external and an internal loan. They suggested that, apart from considerations of exchange, resort should be had to rupee loans as far as possible rather than to external loans, even though the rate of interest on the former may be somewhat more unfavourable, the idea being to foster habits of saving and investment, and furnish first-class security in the form of Government scrip and well-secured bonds as cover for bank accommodation to industrial enterprises in India. From this point of view in particular we must welcome the recent large repatriation of India's sterling debt and its ultimate conversion into rupee debt.

Foreign capital, however, normally seeks entry into the country on a speculative and profit-sharing basis and involves foreign control and management. It is against this class of capital that objections are generally urged.

§22. Objections to foreign capital.—The principal points against foreign capital have been stated as follows.<sup>1</sup> (i) The first obvious objection is that the profits go out of the country. To some this objection appears so overwhelming that, rather than allow the natural resources of the country to be developed and exploited principally for the benefit of foreigners, they would like to see a complete ban on external capital even though this might result in an indefinite postponement of the industrial development of the country. This feeling is particularly strong with regard to 'key industries' or industries important from the point of view of national defence, and those natural resources of the country, such as minerals, which once exhausted cannot be replaced. (ii) The second objection is that foreign firms prefer to choose as directors persons of their own nationality, a partiality which is extended to the selection of members of their superior staff, so that Indians have no reasonable chance of rising to positions of responsibility. They are also unwilling to train Indians as apprentices, so that one of the main advantages claimed for foreign capital is usually missed. (iii) Lastly, there is the political objection against foreign capital, namely that it gives rise to vested interests which are usually antagonistic to the political and economic aspirations of the country. This applies particularly to countries which are politically subject nations. The suzerain power in such cases helps foreign capitalistic interests to exploit the subject country and to keep it economically backward and in return for this favour, foreign capital can generally be relied upon to throw its weight and influence against any movement of political

<sup>1</sup> See *Fiscal Commission Report*, par. 290, and Minute of Dissent, pars. 54-8; *External Capital Committee Report*, par. 17.

emancipation or progress. Even in a country which is politically independent, foreign capital is usually found to ally itself with the actual administration in the country however oppressive and unpopular it may be, because its own selfish interests lie more in stability than in progress. The interference of foreign investors through their own governments or otherwise, in the political and economic affairs of a country where their capital is invested, is an ever-present danger. India has had bitter experience of all the evils of an unholy alliance between an alien government and foreign capital. It was only when India's march towards independence began to appear irresistible, that foreign capital found it necessary, in sheer self-defence, to identify itself more and more with the Indian standpoint.

§23. Uses and advantages of foreign capital.—There are, however, several grounds on which, in spite of the disadvantages noticed above, it may on the whole be necessary and desirable to welcome foreign capital subject to certain reservations. (i) One of the advantages of foreign capital is that, with its help, the process of industrialization and consequently of the enrichment of the country is expedited. The country gains from the beginning, because the industries, although dependent on external capital, cause an increase in the national wealth at least in the form of the wages paid to the labour that is employed. If the alternative lies between no industrial development and industrial development with the help of foreign capital, it is clear that the latter is to be preferred from the purely economic point of view. No doubt, the country would benefit most if profits as well as wages remained in the country, and it is of the utmost importance that indigenous enterprise should come forward as quickly as possible to undertake the task of the industrial development of the country, and everything should be done to encourage it to do so. The wages, whether they bear a small or a large proportion to the gross earnings, undoubtedly constitute a net gain to the country.<sup>1</sup> But the more important gain, apart from that which comes by way of an immediate increase of national wealth to the extent of the wages earned, is that the foreign capitalist imports into the country the technical knowledge, including the possession of valuable patents, and the organization which are needed to give an impetus to industrial development. But this advantage can only be reaped fully if facilities are provided by the foreign firms to train the people of the country in industrial organization and technique. In this connexion it must be noted that although European capital has been active for a long time in the field of Indian industry, its presence has not resulted in any appreciable advantage of the character described above. This shows that merely allowing unrestricted entry to foreign capital is not automatically followed by the advantages claimed for it. It is necessary to impose such conditions on foreign companies as are calculated to hasten the industrial education of the country. No useful purpose is served by denying that Indians are, at present, lacking in

<sup>1</sup> See Morison, *Economic Transition in India*, p. 220.



the qualities of industrial leadership and in industrial knowledge. But they are capable of learning the lessons which the West can teach them in these respects, provided they get proper opportunities and facilities for so doing. And if they fail to get the necessary initiation into up-to-date methods and new ideas at the hands of foreign industrialists, the main object of allowing foreign capital to establish industries in the country will be defeated.

Another advantage claimed for foreign capital is that it bears the initial cost of development and smooths the path of indigenous enterprise.<sup>1</sup> It is, however, a sign of weakness if a country always depends upon foreigners for taking the risks attendant upon industrial enterprise. The commendable initiative shown in recent years by Indian industrialists in launching new enterprises such as the aircraft factory and the ship-building yard shows that Indians can now be relied upon more and more to face pioneering risks attendant on the industrialization of the country. Sometimes they also find it advantageous to launch joint enterprises with foreign concerns allowing them a share, but not a predominating share, of control. Recent instances are the Birla-Nuffield combine for the manufacture of motor cars and the Tata-Imperial-Chemical-Industries scheme for setting up the dye-stuff industry in India.

§24. Restrictions on external capital.—On a consideration of the advantages and disadvantages of foreign capital, we come to the conclusion that, although we must not receive it too freely and with an excess of compliment, it has an important role still to perform in the industrial development of the country, provided its operations are brought under suitable regulation and it is subjected to certain restrictions. The restrictions have to be devised so as to reconcile two conflicting sets of considerations. On the one hand, foreign capital must be attracted in just the required quantities and of just the required kind. If the restrictions are too rigorous, external capital is likely to be scared away, to the detriment of the country. On the other hand, the total absence of restrictions or excessive leniency in imposing them carries with it the danger of foreign capital occupying the whole field of remunerative industry without any corresponding advantage to the country. The kind of restrictions proposed are as follows :

(i) Foreign companies should be incorporated and registered in India with a rupee capital so as to offer facilities for investment to Indians and to identify the management with Indian national interests. The objection that this restriction is likely to be evaded by the formation of private instead of joint-stock companies is met by pointing out that the large capital necessary for modern industrial enterprises cannot ordinarily be raised by private firms and that, in any case, if such an evasion is seen to occur on a large scale, special legislation might be passed to prevent it.

(ii) Secondly, a proportion of the shares of such companies should

<sup>1</sup> The history of European enterprise in India is briefly dealt with in Buchanan, *op. cit.*, ch. iii.

be reserved for Indian investors in order to ensure sufficient Indian control on the management. A less extreme variant of this is that this proportion should be reserved for Indian subscribers in all new flotations for a definite period of time. It has been objected against this provision that it would be utterly useless, unless restrictions were placed on the free transferability of shares subscribed to initially by Indians, but if the free transferability were impeded, the Indian shareholder would be penalized as the result of a restricted market for his shares and the consequent loss in their value. On the other hand, the reservation of a certain proportion of the shares for Indians would so far limit the amount of capital in the industry, and by lessening competition would increase the yield to it, but this in its turn means that the capitalist would gain at the expense of the consumer. Lastly, it is objected that it would be practically impossible to prevent the evasion of all such restrictions.<sup>1</sup>

(iii) Thirdly, it is proposed that a certain percentage of the directors should be Indians, preferably chosen by the Indian shareholders. The objection that this restriction savours of a narrow racial communalism, which is, moreover, fatal to businesslike and efficient management, has been met by the counter-argument that the very idea of imposing certain disabilities on foreign capital because it is foreign, is a kind of communalism which, on other grounds, is nevertheless regarded as necessary. Even England has not been free from the taint of communalism, meaning thereby a certain amount of discrimination against the foreigner. In illustration of this, Pandit Malaviya pointed to the provision of the English Overseas (Credit and Insurance) Act 1920, restricting the grant of credit only to such firms as possess a predominantly English character. Similarly, in India, even under the free-trade regime the Government had already accepted the necessity of such restriction whenever concessions were granted to private companies.

(iv) Fourthly, it is proposed that all companies, Indian and non-Indian, should provide facilities for the training of Indian apprentices and that penal taxation should be imposed for non-compliance.

It is generally agreed that some such restrictions on foreign capital are necessary for minimizing its disadvantages and maximizing the advantages. Such restrictions have actually been legalized in the Indian Steel Industry Protection Act of 1924. There is, however, a difference of opinion as to the cases to which they should be applied. The Majority Reports of the Fiscal Commission and the External Capital Committee, for example, preferred to impose these restrictions only when a definite concession or pecuniary assistance, such as a bounty, had been granted by the Government to companies, their general objection to the wholesale imposition of these conditions in all circumstances being that they would be too onerous and would therefore be evaded, or, if not capable of being evaded, would frighten away foreign capital almost completely. The Minority

<sup>1</sup> *External Capital Committee Report*, pars. 21-3.

Report of the Fiscal Commission, on the other hand, argued that protection in itself constitutes an important concession and that logically no distinction can be made between favouring an enterprise by definite concessions like bounties and favouring it by admission to the benefit of a general system of protection, and it opined that the restrictions proposed above should be applied in all cases, whether particular concessions are granted or not.

The general conclusion that emerges from the above discussion is that, in the first place, external capital is in some measure necessary in the present circumstances for the purpose of hastening industrialization and shortening the period of the consumer's sacrifice (which will continue so long as protective tariffs are maintained) and for providing it with the modern equipment of industry. In the second place, however, the inflow of external capital must be controlled so as best to fulfil the objects specified above. How exactly and in what circumstances this control should be exercised is a matter more of detail than of principle. The difference of opinion between the Majority and Minority Reports of the Fiscal Commission, to which we have referred, arose from the fact that the Majority had a very limited faith in the efficacy and wisdom of the proposed restrictions, whereas the Minority entertained a positive bias in favour of them. But there was a fundamental agreement between them as regards the national end to be achieved by the regulation of foreign capital.

How far the methods of regulation suggested will be effective in attaining the aims kept in view, can only be decided by a process of trial and error. If a particular type of control is found in practice to be injurious, it is always possible to withdraw it or supply a corrective to suit the circumstances of each case. We do not think that irreparable injury will result from beginning with comparatively stringent regulations on the lines recommended by the Minority Report ; if they are found unsuitable, they can be changed and moderated as may be demanded by circumstances. We do not believe that capital, that may be scared away as a result of restrictions which prove by experiment to be too severe, cannot be coaxed back again by relaxing them if and as necessary. A certain initial bias, however, in favour of restrictions on foreign capital would be in consonance with enlightened Indian opinion.

§25. Position of foreign capital under the 1935 constitution.—The Government of India Act of 1935 contained a number of provisions with respect to discrimination, etc., and they may be summarized as follows :

British subjects domiciled in the United Kingdom could not be denied the right of entry into British India nor could any disability be imposed on them in regard to travel, residence, the holding of property and of public office or the carrying on of any occupation, trade or profession in British India.

No differentiation in respect of taxation against British subjects domiciled in the United Kingdom or Burma and British companies or companies incorporated in the United Kingdom or Burma was permitted.

British companies carrying on business in India were eligible for any grant or subsidy to the same extent as it was payable to companies incorporated in British India.

No ship or aircraft registered in the United Kingdom could be subjected to any treatment which was discriminatory in favour of ships or aircraft registered in British India.

Permission was given to Indian legislatures to confine subsidies for the encouragement of trade and industry, in the case of companies not engaged in such branches at the time of the legislation, to such bodies as were incorporated under the rules of British India and which offered facilities for training Indians, and had up to half of their directors Indians.

The provisions with respect to discrimination held good only so long as corresponding discriminatory treatment was not shown in the United Kingdom against Indians or Indian companies. Moreover, these provisions were to be suspended in case a convention was made between His Majesty's Government and the Federal Government ensuring similarity of treatment to each other's nationals and companies, after the establishment of the Federation.<sup>1</sup>

Besides the statutory provisions indicated above, the Instruments of Instructions of the Governor-General and the Governors gave them wide discretionary powers in the matter of assenting to bills, enabling them to withhold their assent from any measure which, though not in form discriminatory, would in their judgement have a discriminatory effect. In case of doubt as to whether a particular bill did or did not offend against the intentions of the Constitution Act in the matter of discrimination, the Governor-General and Governors were required to reserve the bill for the signification of His Majesty's pleasure.

The principle of reciprocity by which no restrictions would ordinarily be imposed on British enterprise in India unless similar restrictions were imposed on Indian enterprise in the United Kingdom was meaningless, and had little value in practice when we realize that there is no Indian enterprise in the United Kingdom competing with British enterprise. To invest this principle with any real meaning it would be necessary to secure the rapid advance of Indian industry and trade until they became comparable to British industry and trade in point of strength and vigour. On a literal reading of the provisions against commercial discrimination any action that might be felt to be necessary in the national interests and in self-defence against the competition of powerful British concerns operating in India would be attended with the most extraordinary difficulties.

All these hampering restrictions will be swept away now we are masters in our own country and free to deal with foreign capital as we think best in the interests of the country.

§26. Need for developing internal capital resources.—It is obvious that the

<sup>1</sup> See the Government of India Act (1935), sections 111-18, N. S. Pardasani, *How India is Governed*, pp. 136-7, G. N. Joshi, *Indian Administration*, pp. 122-3.

greatest advantage will be realized when the country is in a position to satisfy her requirements for new capital almost entirely from internal rather than from external sources. As the External Capital Committee remarked : 'The real solution of the problem of external capital lies in the development of India's own capital resources.' In order to draw out the 'vast store of dormant capital' in existence in India, 'banking facilities must be increased and extended'.<sup>1</sup> The important subject of the development and reorganization of Indian banking, as also the recommendations of the Central Banking Enquiry Committee and the Provincial Banking Enquiry Committees, are pursued in a separate chapter on Banking.<sup>2</sup>

The replacement of foreign by indigenous capital implies that industries should not only be financed by Indians but also owned and managed by Indians. This latter point, however, has already been dealt with earlier in the chapter.

<sup>1</sup> See *External Capital Committee Report*, Summary of Recommendations.

<sup>2</sup> See vol. II, ch. xi.

## APPENDIX

### PARTITION AND AFTER<sup>1</sup>

§1. Population.—The following table, based on the figures of the 1941 census, shows the area, in thousands of square miles, and population, in millions, of the two Dominions and of the States outside them :

	Popula- tion (millions)	Per cent of total	Area (1000 sq. mi.)	Per cent of total area	Density
<b>INDIAN UNION</b>					
Provinces ...	230	57.8	627	40.1	368
States ...	68	17.6	418	26.5	167
Total ...	298	75.4	1,045	66.6	299
<b>PAKISTAN</b>					
Provinces ...	66	16.9	236	14.9	280
States ...	5	2.6	129	8.1	37
Total ...	71	19.5	365	23.0	195
Hyderabad ...	16	4.1	82	5.2	198
Kashmir ...	4	1.0	82	5.2	
Grand total ...	389	100	1,574	100	241

Nearly 64 per cent of the total Pakistan population is concentrated in Eastern Pakistan, which accounts for only 25 per cent of the total area of Pakistan. The density of population in Eastern Pakistan is as high as 718 as against 136 in Western Pakistan.

The percentage of urban population is 14 in India and 8 in Pakistan.

It is officially estimated that, as a result of communal disturbances on the eve of the partition, 5 million Muslims migrated from India to Pakistan and there was an influx of about the same number of non-Muslims into India. This still leaves about 32 million Muslims in India and 15 million non-Muslims in Pakistan.

§2. Agriculture.—The following figures relating to the year 1938–9 show that nearly half of the total area is uncultivated in both Dominions, the proportion of cultivated land being a little higher in India than in Pakistan. Per capita sown area in India is 0.75 acre and in Pakistan 0.64 acre. 15 per cent of the total area is under forest in India as against 5

<sup>1</sup> This appendix is largely based on Professor C. N. Vakil's timely and useful publication, *Economic Consequences of the Partition*, second edition.

per cent in Pakistan. Of the uncultivated area Pakistan has a larger proportion than India not available for cultivation.

Classification of area (in million acres)	Indian Union		Pakistan		Hydera- bad	Kash- mir	Total
	area	%	area	%	area	area	area
Net sown ...	204	42	43	37	27	2	277
Current fallow ...	47	9	11	9	3	0.3	61
Total cultivated ...	251	51	54	46	30	2.3	338
Forests ...	74	15	5	5	6	2	87
Not available for culti- vation ...	80	16	30	26	10	3	123
Other uncultivated ...	86	18	26	23	2	1	115
Total uncultivated ...	240	49.1	61	54	18	6	325
Grand total ...	491	100	115	100	48	8.3	663

251 million acres or 18 per cent of the cultivated area is under irrigation in India, while 54 million acres or 36 per cent of the cultivated area is under irrigation in Pakistan. Most of the irrigation works, however, are located in Pakistan.

An area equal to 183.6 million acres or 78 per cent in India and 37.7 million acres or 77 per cent in Pakistan is under food crops. Per capita acreage under food crops is 0.61 in India and 0.54 in Pakistan. But owing to irrigation facilities, the yield of crops per acre is higher in Pakistan with greater scope for reaping more than one crop in the year. Pakistan thus enjoys a surplus, while India has a deficit of from 3 to 5 million tons of food-grains.

India has to import cotton and jute from Pakistan. On the other hand groundnuts, coffee and tea are entirely Indian products for which Pakistan is dependent on India.

The position of Pakistan, in respect of milk is more favourable than that of India. Pakistan also has a more abundant supply of hides.

§3. Minerals.—It is needless to point out that annual production in India is at present far superior to that of Pakistan in respect of minerals.

Mineral	India (1944)	Pakistan (1944)
Coal (lakh tons) ...	248	3
Iron (lakh tons) ...	23	—
Copper (lakh tons) ...	3.3	—
Manganese (lakh tons) ...	3.7	—
Bauxite (tons) ...	12,135	—
Petroleum (million gallons) ...	66	21
Mica (cwts) ...	139,000	—
Chromite (thousand tons) ...	21	19
Gypsum (thousand tons) ...	26	58

§4. Industry and Trade.—Dislocation of the industrial structure may be said to be one of the major evil consequences of partition. Artisans and skilled workers who were mostly Muslims migrated to Pakistan leaving the factories in East Punjab almost without labour. Hindu capitalists fled to India leaving factories in West Pakistan without managerial skill. While cotton and jute are grown mostly in Pakistan, the cotton and jute mills are mostly located in India.

An idea of the distribution of various industries can be had from the figures given below relating to 1942 :

Industries	India	Pakistan
Cotton mills ... ..	357	15
Jute mills ... ..	111	—
Sugar mills ... ..	176	15
Iron and steel ... ..	36	—
Cement factories ... ..	57	8
Paper mills ... ..	19	—
Glass factories ... ..	112	5

The total number of cotton mills in 1943-4 was 410, out of which only 15 were located in Pakistan. The textile and jute mills in India largely depend upon Pakistan for their raw material.

India's share of the industrial establishments in undivided India is 86 per cent and of persons employed in industries more than 90 per cent are to be found in India. Pakistan lacks many major industries, and in average size those she has are inferior to India's. There is also much greater diversity of industrial development in the Indian Union than in Pakistan.

Though Pakistan has a few cement factories, they are dependent on India for coal and gunny-bags and her sugar factories have not developed *pari passu* with the area under sugar-cane.

The most serious drawback of Pakistan's industrial structure is the total absence of iron and steel factories.

Pakistan is more preponderantly agricultural than the Indian Union. While undivided India had a monopoly of the export trade in raw jute, the Indian Union is now the world's heaviest importer of that commodity which has to come to her from Pakistan. Similarly the Indian Union has now to import about one million bales of cotton (mostly medium- and long-staple) from Pakistan which includes the most important cotton-producing areas of undivided India. The Indian Union has an unfavourable balance of trade with Pakistan as well as with the outside world. One of the difficult problems for the Indian Union, and to a lesser extent for Pakistan, is that of bridging the gap between exports and imports by an increase in the former and a decrease in the latter or both.

§5. Transport.—(i) *Railways*. The total capital at charge of the Indian railways is Rs. 702 crores as against Rs. 136 crores of the Pakistan railways. Of the total route mileage of undivided India, 77 per cent is in the Indian



Union. The following table shows the division of railways according to mileage :

Indian Union		Miles	Pakistan		Miles
1. N.-W. Railway (East Punjab comm. lines) ...		1,610	1. N.-W. Railway Comm. lines Strategic		3,110 1,817
2. Assam Railway Broad gauge ...		376	2. Assam Railway Broad gauge		503
Metre gauge ...		1,399	Metre gauge		999
3. E.I.R. B.B.C.I. B.N.R. G.I.P. M.&S.M. O.T.R. S.I.R. Bezwada & Dhor Kurnool	}	21,180	3. Jodhpur-Hyderabad Railway		319
Total ...		24,565			6,748

The Indian Union is relieved of the burden of the strategic lines of the N.-W.F. Railways which were responsible for a total loss of Rs. 42 crores during the period from 1924 to 1946. Acceptance of the scales of pay as recommended by the Central Pay Commission and the rising prices of stores and fuel are however factors which will to some extent offset this relief.

The movement of refugees severely dislocated the railway finances as well as the general administration in both the Dominions. During a period of two and a half months, the railways were called upon to move as many as three million refugees. This strain was too much for the engines and bogies that were already worn out and had long needed replacement.

The future of Indian railways, however, is fairly bright and their position is steadily improving. The following table reveals the enormous rise of railway income and expenditure since the Partition :

	Undivided India 1939-40	Indian Union 1948-9	Pakistan 1948-9 <sup>1</sup>
Gross revenues ...	102.73	190	36.89
Total working expenses ...	69.93	159.78	37.15
Net miscellaneous revenue ...	0.64	2.16	—
Net revenue ...	33.44	32.38	—
Interest charges ...	29.11	22.53	—
Surplus profit ...	4.33	9.85	—

The N.-W. Railway and the Assam-Bengal Railway which have been split up between the two Dominions earned a profit appreciably smaller in proportion to that earned by the other railways. This implies that Pakistan will probably have a deficit railway budget, although it has not accepted the pay scales of the Central Pay Commission.

<sup>1</sup> The figures for Pakistan are inclusive of revenue under Posts and Telegraphs.

Imports of spare parts from the United Kingdom and the manufacture of some of them in her own ordnance factories, the reduction of delay in the turn-round of wagons and engines, and drastic measures to check ticketless travel have greatly helped to improve the position of railways in India.

(ii) *Shipping*. Undivided India had only 150,000 tons of shipping which amounted to 0.24 per cent of the world total. Out of this the share of Pakistan amounts to not more than 40,000 tons.

(iii) *Roads*. Out of a total—metalled and unmetalled—mileage of 315,000, India has 265,000 and Pakistan 50,000 miles of roads.

§6. *Currency and Exchange*.—The following were the main provisions of the Pakistan Monetary System and Reserve Bank Order, 1947.

(i) Indian notes were to continue to be legal tender in Pakistan till 30 September 1948.

(ii) On 30 September 1948, the Reserve Bank of India was to retire as a note-issuing authority for Pakistan. Since that date Pakistan has had unfettered authority to make her own currency arrangements.

(iii) After 1 April 1948, the Reserve Bank might issue 'Pakistan notes'.

(iv) Assets equal in value to Pakistan notes were to be transferred by the Issue Department of the Reserve Bank of India to the Government of Pakistan soon after the 30 September 1948.

(v) Pakistan is to accept Indian notes from the Reserve Bank of India in certain circumstances until 1 October 1949, but they are to be replaced by Pakistan notes as and when required.

(vi) For one year after the issue of Pakistan coins the Indian rupee and subsidiary coins will remain legal tender in Pakistan.

Accordingly Pakistan notes and Pakistan currency have been issued from the dates specified.

Pakistan has had authority to declare the par value of her currency from October 1948. Considering the position of Pakistan in respect of foreign trade, it is surmised that Pakistan currency will remain on a par with the Indian rupee.

§7. *Banking*.—The number of banking concerns in the two Dominions immediately after the Partition is given in the table below :

	India	Pakistan
<b>SCHEDULED BANKS :</b>		
Head Offices ... ..	85	13
Branch Offices ... ..	2,428	620
Total ... ..	2,513	633
<b>NON-SCHEDULED BANKS :</b>		
Head Offices ... ..	462	157
Branch Offices ... ..	1,175	411
Total ... ..	1,637	568
Grand Total ... ..	4,150	1,201

Pakistan's share of banks was in proportion to population. But after the Partition many banks and indigenous bankers migrated from Pakistan to India. As might be expected, the result has been a considerable decline of banking business in Pakistan. Bank advances and bills discounted have declined and time-deposits have dwindled from about Rs. 39 crores to about Rs. 18 crores. The wholesale flight of Hindu capitalists with their funds and valuables from Pakistan naturally aggravated the situation.

The West Punjab Government floated a Finance Corporation with a capital of Rs. 1 crore mainly to finance the cotton and wheat trade. Before the Partition this finance was provided by Hindu capitalists.

As mentioned in the Pakistan Monetary System and Reserve Bank Order, 1947, a Central Pakistan Bank, called 'The State Bank of Pakistan', has been instituted since 1 July 1948 to manage the paper-currency, public debt and exchange of the Dominion. The structure of the Bank is almost the same as that of the Reserve Bank of India.

§8. Public Finance.—Estimates of central revenues of both the Dominions are given below in lakhs of rupees, based on figures for 1944-5 :

Heads of Revenue	Share of India	Share of Pakistan	Total
1. Customs ... ..	29,32	8,97	38,29
2. Central excise duties ... ..	32,87	5,27	38,14
3. Corporation tax and taxes on income :			
Ordinary ... ..	52,95	4,43	57,38
Surcharge ... ..	32,73	2,84	35,57
4. Business profits tax ... ..	11,00	1,00	12,00
5. Civil administration ... ..	1,91	57	2,48
6. Currency and mint ... ..	9,60	2,86	12,46
7. Civil works ... ..	59	18	77
8. Interest ... ..	1,37	41	1,78
9. Opium ... ..	1,04	—	1,04
10. Receipts from States ... ..	46	14	60
11. Receipts in connexion with war ... ..	14,32	4,28	18,60
12. Net receipts from Posts and Telegraphs ... ..	7,89	2,36	10,25
13. Net receipts from railways ... ..	24,64	7,36	32,00
14. Deduct share of income-tax distributed to provinces ... ..	—21,25	—5,31	—26,56
Totals ... ..	200,44	35,29	235,63

These estimates proved substantially correct as revealed by the budget figures for 1948-9. The estimates in respect of provinces are given below in lakhs of rupees, based on figures for 1944-5 :

## PAKISTAN PROVINCES :

West Punjab	...	...	...	14,95
Sind	...	...	...	8,80
N.-W.F.P.	...	...	...	1,84
East Bengal	...	...	...	18,84
Sylhet	...	...	...	1,00
Baluchistan	...	...	...	20

## INDIAN PROVINCES:

East Punjab	...	...	...	8,06
U. P.	...	...	...	27,47
Bihar	...	...	...	12,75
Orissa	...	...	...	3,18
Assam	...	...	...	4,92
C.P. & Berar	...	...	...	9,62
Bombay	...	...	...	33,67
Madras	...	...	...	41,24
West Bengal	...	...	...	14,78

Partition has brought with it an enormous increase of expenditure for both the Dominions. For the suppression of communal riots and maintaining law and order in general it has become necessary to strengthen the defence and police services.

Another incidental item of heavy expenditure is in connexion with the relief and rehabilitation of refugees. This is likely to continue for a few years to come.

One of the results of widespread disturbances was incalculable damage to food crops which greatly worsened the food situation in the country. The expenditure on food subsidies has consequently risen steeply.

The extra burden, mainly due to an increase of unproductive expenditure, besides aggravating inflationary tendencies, has necessitated the postponement of many nation-building schemes that had been projected.

Payment of overseas pensions and interest on pre-partition loans amounting to about Rs. 68.5 crores a year is to be the sole responsibility of the Indian Dominion for a few years to come.

§9. The division of assets and liabilities.—A financial agreement, laying down broad principles for the distribution of assets and liabilities between the two Dominions, was signed on 12 December 1947.

On 1 March 1947, the amount of interest-yielding assets was Rs. 1,000 crores, the uncovered debt, Rs. 867 crores, and cash and securities held on the Treasury Account, Rs. 514 crores.

The division under the agreement is approximately as follows :

				India (Rs. crores)	Pakistan (Rs. crores)
Interest-yielding assets	...	...	...	835	165
Cash balance	...	...	...	325	75

Of the debt of Rs. 867 crores, Pakistan's share comes to 17.5 per cent. One-third of the military stores went to Pakistan which was also granted an advance of Rs. 6 crores to enable it to work its ordnance factories.

The interest on securities both in India and in Pakistan will be met by the Indian Government alone for some time, after which Pakistan will be required to pay its own share. It is to discharge its indebtedness to India by annual payments extending over a period of 50 years, beginning from the fifth year of partition. India's liability to holders of securities in Pakistan will be about Rs. 7 crores.

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